IDEAS ON LIBERTY

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PERSPECTIVE

Is the Marketplace Efficient?

It is tempting to defend the free market b claiming it's efficient. But we'd better resis that temptation. It can lead to trouble.

Individuals surely strive for efficiency; t the best of his knowledge, each perso attempts to economize resources, time, an energy in the pursuit of goals, and each nec essarily puts higher values before lower ones As Israel Kirzner suggests, if all we wish t claim when we say the market is efficient i that it lets individuals coordinate with other in pursuit of their personal aims, then tha claim is unobjectionable. The problem is tha many economists, unrealistically assuming equilibrium and perfect knowledge, think there's more to the claim. You can see this when they assert that the market directs resources to their best, or highest-valued, use.

To a methodological individualist this should be troubling. "Best" to whom? If I choose between using a quantity of gasoline to run my lawnmower and to drive to the park, it makes sense to say that my choice indicates my highest-valued use of the gasoline. At any given time, I have a scale of values that is revealed by what I do. If I drive to the park I demonstrate that, at the moment of choosing, I prefer that to a mown lawn.

But we can't use this kind of analysis with more than one person. What's a higher-valued use of the gasoline: *my* driving to the park or *your* mowing your lawn? There's no answer to that question because more than one value scale is in the picture and no way exists to rank the two activities. If that's true for two people, it's no less true for 285 million people. There is no social value scale to consult. The idea that there is such a scale lies at the heart of collectivism.

The price system won't get us out of this difficulty. If you outbid me for the gasoline, requiring me to forgo the park and enabling you to mow, we cannot say that you value the mowing more than I value the recreation. Why not? Because there is no unit with

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vhich to measure value, or utility, and thus ıo basis for comparing such things between ndividuals. What we can say is that I prefer vhatever else I plan to buy with the money o time in the park, and you prefer a mown awn to whatever else you could have spent he money on. (We could both discover ve're mistaken.) But those are separate *ntra*-personal value comparisons and so do ıot violate methodological individualism.

We can also say that rising prices for :esources tend to encourage individuals to ɔostpone or cancel their (personal) low-ɔriority projects, which frees the resources for other individuals' (personal) high-priority projects. That may be mistaken for a shift to socially "higher valued" uses, but it isn't the same thing.

(For more, see Roy Cordato, "Free Markets and 'Highest Valued Use,'" *Ideas on Liberty*, May 2000, online at www.fee.org/vnews.php?nid=4623.)

* * *

So much bad public policy comes out of the belief that the needs of the individual and the needs of the community clash. Nonsense, writes Arthur Foulkes.

It's tough being unemployed, but that's no reason to portray oneself as a victim and capitalism as the victimizer. Gary McGath explains why.

The war in Iraq brought calls for a resumption of the military draft. Aeon Skoble demonstrates why that would be a big mistake.

It's a popular notion—and there are clichés to prove it—that those on the money side of a transaction are superior to those on the goods and services side. Gene Callahan exposes the faulty economics in that thinking.

A town in Denmark is a textbook model at turning industrial waste into valuable resources—and government planners had nothing to do with it. Pierre Desrochers has the details.

There's a population problem after all. But it's not the one the environmental lobby has warned of for the last 30 years. Jim Peron spells it out.

Thanks to government, we have reformulated gasoline. Michael Heberling wants to know how many more gifts like this we can stand.

Students of the Austrian, or subjectivist, approach to economics know that a precursor to that approach was developed by the School of Salamanca in late-sixteenth and early-seventeenth-century Spain. Norman Barry reports on the passing of an eminent scholar of the School of Salamanca.

As the success of America demonstrates, private property, though much disparaged, is indispensable to freedom. The late congressman Howard Buffett knew this well, as he shows in a classic reprint from 1956.

Here's what our columns cover this month: President Richard Ebeling demonstrates that FEE is needed more than ever. Donald Boudreaux discourses on free trade. Burton Folsom documents President Andrew Johnson's respect for the Constitution. Charles Baird draws lessons from the Washington, D.C., teachers-union scandal. And Shikha Dalmia, after mulling over the claim that culture needs taxpayer subsidies, remonstrates, "It Just Ain't So!"

Coming under scrutiny in our book-review department are volumes on the Great Depression, the Jews in Germany, cities, and the "common good."

—SHELDON RICHMAN

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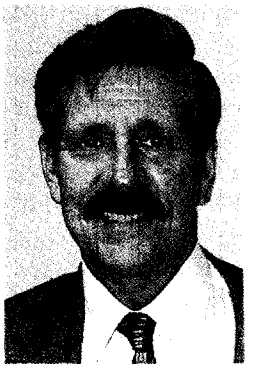
by Richard M. Ebeling

IDEAS ON LIBERTY
SEPTEMBER 2003



The Importance of FEE, Then and Now

When Leonard Read established the Foundation for Economic Education in 1946, the United States had just passed through 12 years of Franklin Roosevelt's New Deal interventionist policies, including four years of wartime controls. Read was deeply concerned that the American people were losing their understanding of and appreciation for individual liberty, free markets, the rule of law, and constitutionally limited government. The institutions of the American Republic were under severe attack.

In the Foundation's prospectus, Leonard Read wrote: "Coercion is being rapidly substituted for voluntary enterprise. Collectivism is displacing individualism." He warned of the lack of intellectual honesty of too many in public life and in the business world. They too often went along with "what they suppose to be popular rather than what their personal, best judgment dictates. This self-betrayal results in little wisdom being applied to public affairs."

In addition, there was a serious "lack of understanding of individualism, the voluntary economy and economic liberty." There were far too few who were able to argue logically and persuasively against the vast array of government regulatory, redistributive, and protectionist policies.

A grave concern, Read stated, was that "A new generation, one that has never experienced economic liberty, is taking over Young men who have become accustomed to being regimented and restricted are coming into positions of responsibility in business. The job of economic education must be undertaken now while those who appreciate the value of liberty are still in a position to support it."

Today, almost 60 years later and more than a decade after the end of the Soviet Union and the Cold War, far too many of our fellow Americans still lack that understanding and appreciation of the principles of the free society. Men in public office who know better still lack the courage to say and defend what they know to be true and right. Economic ignorance still dominates discussions surrounding the role and policies of government in society.

But worst of all, Americans have gotten used to a life of regimentation and restriction, to the point that they do not even clearly understand just how far the United States has moved away from its heritage of freedom. Look around you, at the clothes you are wearing, the furniture in the room in which you are sitting, at the appliances and fixtures in your home, at your forms of transportation, and all the objects in your place of work. Not one of these things has been produced, manufactured, marketed, and sold without dozens if not hundreds of regulations, restrictions, and requirements imposed and enforced by the government.

Reflect a moment about your health care, your retirement options, or your children's

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education. They are all dictated, controlled, and monitored by the government. Under the bogeyman of "national security" each of us, with every passing year, has a smaller and smaller corner of personal privacy on his property as the government bestows on itself greater and greater powers to surveil, invade, and intrude into our homes and workplaces.

To pay for all these "benefits" that government so generously provides we are taxed in various direct and indirect ways that approach 50 percent of total income.

Now More than Ever

Never was the task for which FEE was founded more needed than today. Never were so many of our fellow citizens lacking in economic understanding. And rarely has there been so much confusion about the real alternatives to the present social and political problems and dilemmas of our society.

Leonard Read always emphasized that as important as it is to point out carefully and thoroughly the dangers and negative consequences of interventionist and welfare statist policies, it is far more important to explain how freedom would work, if only it were given a chance. The crucial task is never to forget to "accentuate the positive."

For example, in all the critical evaluations that have been made of the Supreme Court's affirmative action decision last June, hardly anyone has suggested that the best solution would be to get government out of the education business completely. All state and most private colleges and universities are funded by various levels of government, either directly or through subsidized or guaranteed loans, grants, and scholarships. Since "he who pays the piper calls the tune," those with the ideological and political power to influence government policy can impose a wide variety of "politically correct" fads and fashions. They can more or less dictate admission procedures, curriculum content, and faculty hiring standards throughout the system of higher learning in the United States.

As a result, the battle comes down to either "us" or "them" in controlling what goes on at colleges and universities around the country through either legislation and spending or judicial decision-making.

If colleges and universities were cut loose from government cash and controls, politics would be taken out of the entire controversy over affirmative action. Institutions of higher education would become private institutions of learning. And as such, each could decide the bases on which they designed their admissions standards. Some might have race components, while others might have blind scholastic-merit standards for choosing freshmen.

Each of us as private citizens could make our own choices, through voluntary contributions and endowment funding, about which schools with what policies we considered more deserving of our financial support. Rather than one or two branches of government imposing a single standard of "fairness," "justice," or "merit" on all of us through legislative, judicial, and spending actions, each individual could decide these sometimes difficult issues for himself.

Competing for private dollars, these colleges and universities would have to persuade people of the rationales for, as well as demonstrate the benefits of, one set of admissions rules and guidelines versus some other. The social process of freely interacting individuals would determine the standards, rather than the political process of power, pull, and influence through which some impose their vision of the good on all.

The answer is really very simple. It's what Leonard Read summed up in the title of one of his books: *Anything That's Peaceful.* The only ones who won't find it that simple are those who desire to coerce others for their own ends. Our task, together, is to convince our fellow men that freedom is always better than force. □

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The Market Endangers the Arts?

It Just Ain't So!

Where a man sits often determines where he stands. Dana Gioia, who now sits as the head of the National Endowment for the Arts (NEA), is living proof of this dictum. In the course of defending a bigger NEA budget, Gioia told an approving Frank Rich of the *New York Times* last June: "If you put the marketplace entirely in charge of the arts, you see them very endangered." This statement would be unremarkable from someone chosen by George Bush to head the NEA. The Bush administration after all embraces the neoconservative agenda, which is suspicious of a completely unfettered cultural marketplace. The view that the marketplace debases high culture by catering to the lowest common denominator may have become passé among the academic left where it was spawned by the Frankfurt School half a century ago. Yet it retains a permanent allure for neoconservatism.

But Gioia is no neoconservative.

A former business executive and an internationally acclaimed poet, Gioia was once the literary editor of *Inquiry*, the now-defunct magazine of the Cato Institute, which readers of this publication will know has been fighting admirably to abolish the NEA (and the whole federally funded alphabet soup of special interests). And at a 1995 festival of Derriere Guard—a group of artists who reject post-modern rejection of artistic technique—Gioia's poem "Money," celebrating the effect of "the long green,/ cash, stash" on the arts, was set to music and performed.

But most ironically, Gioia's claim to fame (and consequently his current job) rests on a 1991 essay he wrote for the *Atlanti Monthly*, "Can Poetry Matter?" In it he bril liantly reflected on why American poets who have been liberated from the grind o dull day jobs by public universities, wher they get paid just to practice and teach thei art, have descended into banality anc become irrelevant to the broader intellectua life of the country. "Like subsidized farmin that grows food no one wants, a poetr industry has been created to serve the inter est of the producers and not the consumers,' he wrote.

Yet now Gioia maintains, "If you put the marketplace entirely in charge of the arts. you see them very endangered."

Apart from the substance, what's most disturbing about this remark is its flavor, its bureaucratic hubris. Nobody "puts" the marketplace in charge of anything. It emerges from the free choices of individuals engaged in voluntary and mutually beneficial exchange. And that's what bothers bureaucrats—that there should be an ordering principle that does not emanate from the nib of their pen.

Nor does the marketplace endanger the arts. There may have been some plausibility to the notion that the market's quest for a mass audience obliterates high culture when the airways—thanks to government restrictions—were dominated by three networks whose exceedingly high capital and operational costs required huge economies of scale. But there is no plausibility to this thesis any longer.

One does not need an extra pair of eyes to notice the dizzying diversity in cultural markets these days. Thanks to the constant creation of newer, and cheaper, artistic technologies, there is almost no art form or genre that the market cannot—indeed, does not—sustain. Looking for classical music compositions by Aho, Pousseur, or Sclesi? No problem. In the unlikely event that your suburban music store does not have them, many Internet stores certainly will. And at the

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same place you are also likely to find "Rappers Delight" by The Sugarhill Gang, Punjabi Bhangra music by Sukhbir, and klezmer music by the Klezmer Conservatory Band.

To be sure, by spawning such diversity the market thwarts the dominance of any particular art form. And if one equates health with dominance, as critics of the marketplace do, then the American art scene does appear to be terminally ill. But if the health of an art form is measured not by the sheer number of its followers but by the quality of its connection with those followers, then one could emphatically say that the marketplace nurtures the arts far better than the NEA.

No Coercion

For starters, unlike the NEA, the marketplace does not politicize the arts by coercively extracting money from the general taxpayer to indulge the taste of a cultural elite. Because members of the paying public can be sure that the market will direct their money to the artists of their choice, they would not have to worry that bureaucrats once spent $1,500 on a poem whose *entire content* was: lighght. (That's no jokke.)

The fundamental problem with the NEA is that it must fulfill two irreconcilable functions: It must liberate artists from the dictates of the public while holding them accountable to it. But as the controversy over NEA-funded artists' besmirching pictures of the Madonna with pachyderm emissions and submerging crucifixes in urine eloquently demonstrate, it does neither well.

The marketplace, by contrast, is much better at drawing a balance between license and licentiousness: By freeing artists from bureaucratic babysitters, the market gives them room to explore the outside contours of their art. Yet to the extent that the audience is free to withdraw its support from an artist without having to explain itself to powerful interest groups first, a luxury the NEA does not have, the market also exerts salutary "control" over artists.

But there is another more subtle—and more profound—way in which the market keeps the arts healthy and vibrant: It does not require artists to court a mass audience. It does, however, require them to court an audience broad enough to sustain their art. Some regard this as an onerous burden, an unnecessary distraction, for artists. But in fact it is a necessary precondition of good art.

Contact with a larger world outside the narrow circle of fellow artists and embattled bureaucrats keeps artists grounded and real. It enables them to keep their fingers on the pulse of humanity and speak to its concerns. Without this nexus with the audience, art tends to wither and decay, as is the case with modern American poetry.

No one has made this point with greater clarity and delicacy than Gioia himself. Although he may rail now like a born-again Adorno (the founder of the Frankfurt School) that "our commercialized, entertainment-oriented television-based culture has cheapened and trivialized public discourse," it was not too long ago that he was pleading for more "vulgar vitality" in poetry. Indeed, à la Adam Smith, he marveled at how Hollywood, inhabited by the basest of people with the basest of motives, still succeeded in producing genuine art while university sophisticates churned out empty pap. "Somehow that market—and the kind of dynamic relationship it [Hollywood] created with a real audience—created art," he noted.

Marketplace endangering the arts? Will Dana Adam Smith please tell Dana Adorno that it just ain't so?

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The Individual and Society

by Arthur E. Foulkes

Over lunch recently a philosophical friend of mine reflected, "U.S. history is the story of a struggle between the individual and society as a whole." A few days later another friend, equally philosophical, said something similar: "It always comes down to a conflict between the individual and the community."

I have often heard this. The individual and the community have conflicting needs and wants. This is simply the truth.

Or is it?

"Society" is essentially the regularities, customs, and ground rules of interhuman behavior. These practices (and their acceptance among people) are tremendously important to how humans act and interact with each other. But is there really such a thing as a "society" whose goals conflict with those of individuals? I don't think so.

Society does not exist independently of individual human beings. As Ludwig von Mises noted, "The individual lives and acts within society. But society is nothing but the combination of individuals for cooperative effort."[1] Indeed, he continues, "The fundamental facts that brought about . . . society . . . are the facts that work performed under the division of labor is more productive than isolated work and man's reason is capable of recognizing this truth." In other words, society exists to serve individuals—not the other way around.

This reasoning casts an entirely different light on the relationship between individuals and society. But this reasoning is not new. Individuals have long understood that they can satisfy their expanding wants only through exchange and association with others. The tremendous bounty of such cooperation, famously explained by David Ricardo nearly 200 years ago, makes social interaction the individual's greatest tool for achieving his goals.

Of course, individuals are expected to obey certain rules when dealing with others. Murder, theft, fraud, and intimidation are contrary to cooperation. But, as Frédéric Bastiat noted 150 years ago, individuals would resist and punish these behaviors "even if specific laws against them were lacking," meaning, therefore, that such resistance does not owe its origin to a "social contract," but rather flows from "a general law of humanity."[2] It is wrong to interpret these "general laws" as being somehow in conflict with the wants of individuals. On the contrary, these laws assist in attaining those wants.

Why then all the talk of an eternal conflict between the individual and society? I believe it is because the "common good" is such an effective political card to play. A multitude of government schemes are justified in the name of the common good—even if they benefit only a small minority. Schemes rang-

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ing from "livable" neighborhoods, sustainable ("smart") growth, Food and Drug Administration regulations, government schools, and the Corporation for Public Broadcasting have all been justified in the name of the "common good," society, or the "general welfare."[3] Resistance therefore is effectively attributed to "selfishness" or "stubborn individualism."

What such government schemes have in common is mistrust of individuals' choices in a free-exchange environment. They seek to impose "a new vision" designed to save us from the chaos of the unregulated marketplace.[4]

I do not have to look far to see the fruits of such collectivist genius. A few years ago our town's local department of redevelopment decided to spend 6.1 million tax dollars to build a mixed business/residential building downtown. The building's commercial and residential units would be rented at approximately "market rates," but nevertheless, the redevelopment bureaucrats never expected the project to make money. "We know for sure [the project] has to be subsidized for about the first 12 years," the director of the redevelopment commission told me in an interview. The 12-year price tag was expected to be several million dollars on top of the construction costs.

Not a Rousing Success

That was four years ago. The five-story building now stands in the heart of our downtown just a couple of blocks from my office. It houses a small pizza parlor, an independent bookshop, and some residential renters. And to make things even better, the building is a sort of sickly yellow color. "Livability," indeed.

The beauty of voluntary exchange and the free market is that it allows consumers to peacefully allocate resources according to their own preferences. That's what Mises called the "sovereignty of the consumers." The millions of dollars wasted on our town's "revitalization project" would have otherwise gone to consumers' needs. But autonomous individuals, not government planners, would have determined those other needs. For the planners, that is always the problem.

Bastiat nicely summed up the attitude of the planners when he wrote,

> While mankind tends toward evil, the legislators yearn for good; while mankind advances toward darkness, the legislators aspire for enlightenment; while mankind is drawn toward vice, the legislators are attracted toward virtue. Since they have decided that this is the true state of affairs, they then demand the use of force in order to substitute their own inclinations for those of the human race.[5] □

1. Ludwig von Mises, *Human Action*, 4th rev. ed. (Irvington-on-Hudson, N.Y.: Foundation for Economic Education 1996 [1963]), p. 143.

2. Frédéric Bastiat, *Economic Harmonies*, trans. W. Hayden Boyers (Irvington-on-Hudson, New York: Foundation for Economic Education, 1996 [1850]), p. 2.

3. The Clinton administration proposed spending $1.7 billion on schemes aimed at promoting "livability"—meaning planned communities with "mixed-use downtowns," "green spaces," and more, all for the "common good." See "Livable Communities for The 21st Century: Remarks as Prepared for Delivery by Vice President Al Gore, Livability Announcement," January 11, 1999, at www.smartgrowth.org/library/gore_speech11199.html. For more on "sustainability" see Environmental Protection Agency—Region 10, "Smart Growth," www.epa.gov/r10earth/sustainability/smartprin.htm.

4. Gore.

5. Frédéric Bastiat, *The Law* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education 1998 [1850]), pp. 32–33.

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Slim Pickings on the Job Bush

by Gary McGath

In *Atlas Shrugged,* Hank Rearden's brother, Philip, whines, "It's a moral imperative, universally conceded in our day and age, that every man is entitled to a job." Hank answers, "Pick it off the bush where you think it grows." In today's weak market, many job-seekers agree with Philip. There is even a political group calling itself the "A Job Is a Right Campaign." They believe that there ought to be a job bush, probably named George, from which they should be able to pick jobs at will.

Like many other people, I've been having a difficult time finding steady income recently, and this has led me to follow job discussion lists on the Internet. Most people approach the situation with determination, frustrated though they may be. A substantial and noisy number, however, react to the situation with a victim's mindset, believing that they're entitled to work that provides the income and satisfaction they've enjoyed in the past. Not finding such work, they blame malicious employers and look for governmental solutions to their problem—a "war on joblessness," as one poster put it.

When people are out of work, they find it easy to convince themselves that they are being oppressed. After all, in a fair-minded world wouldn't someone see their obvious value and quickly hire them? This displacement of blame isn't limited to the traditional victimized minorities; any group can be built up into a persecuted target when jobs are scarce. Many claim that it's those over 50 who are being targeted, or married people. A post on a job-networking list declared, "Sounds to me like the employment world is for the young and unmarried. All others need not apply."

At the same time, we read in the news that graduates will be having a tough time of it this year. They feel that they're caught in a trap because they can't get a job without experience and can't get experience without a job. I've seen classified ads that require more years of experience in a specialty than have passed since it was created. This suggests that it's the people with age and experience who have a lock on jobs.

Any given employer will have preferences. Some want young people who are full of energy and willing to put in long hours. Some want single employees because their health-insurance costs are lower. Some want the experience and stability of older, married employees. Preferences vary from employer to employer, and tendencies vary from industry to industry. Construction companies understandably favor young, strong, male employees for their sites. Domestic services may favor older women, whom people feel more comfortable letting into their homes.

Every group meets disfavor some of the time, but being unable to find work can seem like the result of the whole world's combined malice. Let's imagine a typical job-seeker; call her Jane Engineer, age 52. Her company laid her off eight months ago, and she hasn't found a job since. She's applied for lots of positions that more or less

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matched her abilities; she's talked with networking groups; she's combed the library and the Internet for ideas. She's had some interviews and has come close once or twice, but hasn't gotten a job offer.

She's starting to think that companies won't give her an engineering position because she's a woman. Or perhaps it's because she's over 50. If she's dark-skinned, she may think all the jobs are going to whites; if she's light-skinned, she may think affirmative action has closed the door on her. Maybe the businesses are hiring only from within and are advertising just to taunt the unemployed. Regardless, it's obvious she isn't being given a chance for reasons that have nothing to do with her merit.

Her next thought is that the companies which won't hire her are depriving her of her due. Someone *should* be giving her a job. After all, her engineering degree cost her parents a lot of money and her a lot of time and work. Since then, she's given her best efforts to several companies. Isn't she entitled to something in return?

The "War on Joblessness"

She starts thinking of the companies that should be hiring her as adversaries. They're withholding something that is rightfully hers. It becomes harder to continue the search, since it's work that she really shouldn't have to do. The government should be fighting a "war on joblessness" on her behalf. It should be passing laws to keep employers from taking anything into account except her qualifications.

She starts to doubt whether it's worthwhile to learn new skills. What's the use if employers have already decided against her; and why should she have to, when her right to a job is being denied? Her resentment starts showing when she makes networking contacts or gets the occasional call from an employer, and interviews become rarer. Finally, perhaps, she gives up, moving in with the kids and rationing out her savings till Social Security starts.

In going down this road, Jane Engineer forgot that being "unemployed" is actually a job that requires its own set of skills, which are quite different from those at her last paying position. She has to be a researcher. This is a difficult task, since the Internet has created a vast change in research techniques over the past ten years. She has to be a salesperson, selling her own skills to potential buyers. She has to compete with other people who are exercising their own research and sales skills. Sometimes, unfortunately, people who would be excellent employees once hired aren't so good at finding employers and selling their services.

No researcher is ever guaranteed to find the necessary information, and no salesperson is ever guaranteed a sale. It isn't research if you can just look something up and be certain that you'll find what you want, and it isn't selling if the customer is compelled to buy from you. Would the "A Job Is a Right Campaign" people want to go shopping on a car lot run by the "A Sale Is a Right Campaign."

Some people would like a society in which researching jobs and selling one's ability was unnecessary. In their vision a wise authority would assign the right job to each person. Would everyone get a fulfilling, satisfying job in such a society? If so, who would sweep the floors and clean the sewers? The Soviet Union gave us one answer to this question: people would take the jobs they were given. Aldous Huxley's *Brave New World* gives us another: people would be conditioned from conception to find their assigned task fulfilling and satisfying. But as long as people are free, working to find the jobs they want must be part of their lives.

Adversity brings out the worst in some people and the best in others. Some respond to a difficult job market by improving their marketability in imaginative ways. Others respond by proclaiming their entitlement and demanding that the job bush blossom for them. Neither group is guaranteed victory, but the ones who fully accept the responsibility of trying are much more likely to succeed. □

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Neither Slavery Nor Involuntary Servitude

by Aeon J. Skoble

The title of this essay refers to two things that are prohibited by the Thirteenth Amendment to the U.S. Constitution. The first is no longer even controversial, yet the second is being suggested right now by several prominent academics and, more frighteningly, members of Congress. Despite the successes of the all-volunteer military currently employed by the United States, we are hearing calls for a return to mandatory military service, also known as conscription or the draft. This is a bad idea whose time has not come.

Actually, it will not do any good to argue that conscription "should be" unconstitutional based on the Thirteenth Amendment, because the Supreme Court doesn't interpret the amendment that way.[1] Nevertheless, conscription is bad policy for a number of independent reasons, not the least of which is its incompatibility with the principle of liberty. The military itself, having tried it both ways, strongly prefers an all-volunteer force. It allows for a far greater level of professionalism and efficiency than the conscript army. Also, morale is far better when all involved feel strongly that they are engaged in a noble and chosen pursuit than when they are forced to participate in an activity they would not choose. (As a professor for three years at the U.S. Military Academy at West Point, I had occasion to discuss this with dozens of officers and hundreds of cadets. That's not a scientific sample, but all the ones I spoke to said it was their perception that the dominant view favored an all-volunteer force.)

Interestingly, though, the proponents of conscription would happily sacrifice morale and combat efficiency to accomplish their social goals. One argument that comes up regularly is that expressed by Northwestern University sociology professor Charles Moskos: that America's upper classes are not adequately represented in military service.[2] This is taken to mean, first, that the "ruling elites" who make the decisions about military action are less sensitive to its human costs, and therefore more likely to commit the military to unjustified actions that only advance a parochial agenda. (Oddly, Moskos uses the example of Agamemnon's willingness to sacrifice his daughter Iphigenia to insure success against the Trojans. He claims this is an edifying example of political leaders' willingness to accept personal sacrifice for the sake of their ends, but it's not at all clear that the decade-long Trojan War was a worthwhile endeavor.)

The theory seems to be that unless I'm willing personally to commit to undertaking the risk of doing X, it is not worth doing. While that has some intuitive appeal, there are many counterexamples; for instance, I am unwilling to work an oil rig or fly a plane. That's because I lack professional competence in these things, just as I lack

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It's hard to see why the right remedy for the economic coercion of some is the physical coercion of others, but addressing this argument requires further response, namely, debunking the notion that volunteer soldiers are coerced in the first place.

professional competence in loading artillery shells. There are many inherently dangerous professions, such as police work and firefighting, which are praiseworthy occupations that some may be unwilling to do. Should there be conscription for police officers or oil drillers to ensure that the risks of those professions are equally shared by the "elite"? Indeed, the fact that an occupation is worthwhile yet risky is why those who would not take such a risk ought to be respectful of the choices made by those who would. In a free society, people ought to be able to choose whether to undertake a risky profession or not.

But respect for people's choices is precisely what vanishes in this argument. A second implication of Moskos's observation is that the "lower classes" are forced to shoulder an undue proportion of the burden. This is the theme echoed in recent remarks by U.S. Rep. Charles Rangel, who said that people do not "really" volunteer—they join because they have no other economic opportunities.[3] Hence, it's not really an all-volunteer military, because the enlisted soldiers are "economically coerced" into joining. It's hard to see why the right remedy for the economic coercion of some is the physical coercion of others, but addressing this argument requires further response, namely, debunking the notion that volunteer soldiers are coerced in the first place.

No Coercion

It's clear that no one is *literally* coerced into joining—that would be conscription. And since Moskos and Rangel are calling for a *return* to conscription, then it follows that we do not currently have it. So the argument must be metaphorical. What Rangel seems to have in mind is this: jobs are scarce, so for many people the military is their only option. If they have no other choice, they are coerced.

One fundamental flaw in this argument is the notion that when one option appears more attractive than others it is tantamount to coercion. It is in some cases: in the classic "your money or your life" scenario, you have an option—pay the robber or be killed—but this is an instance of coercion because the robber is creating and delimiting the set of alternatives open to you. In other cases, this is not so. If there are two employers in a town and one pays vastly more than the other, that doesn't mean that people who choose the higher-paying job are coerced. If there are two stores in town and one offers far lower prices, the people who shop there are not coerced.

Coercion requires more than limited options. It requires that the set of options has been imposed by another for his own ends. So if joining the Army seems to Smith like a good opportunity for training and experience because there aren't other attractive jobs in town, that's a good thing, not a bad thing, for Smith. To deny this you'd have to think either that the military is intrinsically evil—but Moskos and Rangel do not claim this—or that the benighted souls of the "lower classes" have no free will, or at least lack the capacity to choose the best option. Coming from ostensible champions of the downtrodden, this is a highly unflattering characterization. Isn't it possible that these young men and women considered the pros and cons of enlistment and, finding it a worthy endeavor, actually chose their course?

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The empirical premise, that they had no other option, isn't literally true either. There are other ways to make a living besides joining the army. So the argument that they were "economically coerced" turns out to be quite mistaken, both factually and philosophically.

But let's say for the sake of argument that they had no choice. Why would that be a good argument for conscription? The presence of all those conscripts would mean even *fewer* job opportunities for the would-be enlistee. It won't help to argue that he could take the job vacated by the conscript, since that might have been a job requiring specialized training or skills that, according to the hypothesis, the would-be enlistee would lack. So the software firm loses a programmer to the army, which gets an unwilling and resentful soldier, while the fellow who wanted to be a soldier goes on unemployment.

Lacking Logic

The complete illogic of conscription is thus made evident: people who would choose to be doing a particular job are denied the opportunity to do so in order that the state can compel someone who is unwilling to do it. But according to Moskos and Rangel, this is justified by the greater social goals of making the military more representative. But even the *New York Times* recognizes that the military does demographically represent working-class America reasonably closely. The military is 63 percent white; civilian population is 70 percent white. Median household incomes for white recruits is slightly lower than the national average, for black recruits slightly higher.[4] To close the (small) gap, would it really be worth denying opportunities to some young people while depriving others of their liberty, reducing fighting effectiveness and morale?

Moskos and other sociologists worry that the all-volunteer force is creating a "warrior caste" that is out of touch with the values of the rest of the country. One suspects that it is the academic caste more than the warrior caste that has these different values. But more important, as long as the military is subordinate to civilian power, who cares what its values are? There's no evidence of mad Strangelovian generals running amok. American military policy, for better or worse, remains the province of the civilian government. The continuity of service among those who have chosen to spend their lives in the military produces greater efficiency. And of course, many of the recruits Moskos is concerned about will do their two or four years and then enter the civilian job force.

But wouldn't conscription foster greater respect across the board for service? If anything, physically compelling an unwilling person to participate in an activity he would not have otherwise chosen would have the opposite effect, fostering resentment. Surely a better way to generate respect is to show respect for the choices made by those who serve. □

1. *Butler v. Perry*, 240 U.S. 328 (1916) and *Arver v. United States*, 245 U.S. 366 (1918).

2. For example, see David M. Halbfinger and Steven A. Holmes, "Makeup of the Military Now Mirrors a Working-Class America," *New York Times*, March 30, 2003.

3. See Steven A. Holmes, "Is This Really an All-Volunteer Army?" *New York Times*, April 6, 2003.

4. See Halbfinger and Holmes, and ibid.

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Butwhatabout . . . ?

My Virginia license plate, adorning both bumpers of my Japanese car, reads FRE TRDE. I always mention this to audiences so they know exactly where I stand on the question of how free consumers should be to spend their incomes on foreigners' goods and services.

I am proudly, completely, confidently, and unconditionally a free trader. I find none of the many "butwhatabouts" to be effective arguments against free trade.

What, you ask, is a butwhatabout? A butwhatabout is the most common response of a free-trade skeptic, issued in the form of a supposedly killer question—as in "But what about the trade deficit?" or "But what about the fact that many foreign workers are paid a mere fraction of what Americans earn?"

Butwhatabouts are bountiful and varied. But the most frequent butwhatabout is this: "But what about the worker who loses his job to foreign competition? How do you justify free trade to him?" The suggestion is that free trade is inappropriate for real-world policy if its advocates cannot satisfactorily justify their case to workers rendered unemployed by foreign trade.

Because I encounter this particular butwhatabout so often, I know that it's one whose answer matters and hence one that should be rebutted with care.

I begin my answer by expressing sincere recognition that losing a job is an unfortunate and often devastating experience. I truly pity workers who, through no fault of their own, find themselves unemployed. Then I ask, "But what about the worker who loses his job to protectionism? How do you justify high tariffs and import restrictions to him?" You see, it's a common mistake of free-trade skeptics to overlook the fact that protectionism inevitably causes some workers to lose jobs.

When government imposes a tariff or import restraint on, say, Americans who seek to purchase foreign steel, one object of this policy is to protect jobs in the U.S. steel industry. And, indeed, by making it more costly for American consumers to buy foreign steel, government artificially props up demand for American steel and thus keeps some workers employed in steel plants who would otherwise lose their jobs.

But by artificially reducing American purchases of foreign steel, protectionism also reduces the number of dollars that foreign steel producers receive. With fewer dollars to spend, foreigners must reduce the amount of goods and services that they purchase from American producers—say, from U.S. lumber suppliers and software firms. Also, because Americans are forced by protectionism to pay more for steel, they must spend less on other goods and services, many of which are produced domestically.

Employment in these domestic industries falls. Some American workers who would have kept their jobs in the absence of the steel tariffs are, through no fault of their own, thrown into unemployment. So it is no

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argument against free trade to point out that it eliminates the jobs of some domestic workers. Preventing free trade—protectionism—has the same effect.

While no essential differences distinguish workers who lose jobs as a consequence of free trade from workers who lose jobs as a consequence of protectionism (hence making invalid the argument that free trade is cruel or otherwise suspect because it causes some particular job losses), there are at least two differences that distinguish the *jobs* eliminated by free trade from those eliminated by protectionism. These differences are worker productivity and wages.

Workers in protected industries are less productive than workers in industries that survive without protection. The reasons are two. First, shielding a firm from competition weakens its incentives to increase efficiency. Second and more important, firms that enjoy a comparative advantage over foreign competitors do not need protection from imports. So the industries and firms that seek protection typically are those that do not enjoy a comparative advantage in producing the things they will produce behind the tariff wall. These firms are among the country's *least*-efficient producers.

Being among the country's least-efficient producers means that the per-worker output of protected firms is generally lower than the per-worker output of firms that are efficient enough to survive market competition without protection. Therefore, competitive wages in protected industries generally are lower than competitive wages earned by equally skilled domestic workers whose jobs depend on free trade. In short, jobs made possible by free trade generally are more highly paid than jobs maintained by protectionism.

Protectionism protects jobs that are comparatively inefficient; it eliminates jobs that are comparatively efficient. This is hardly a means of fostering a strong domestic economy.

Consumers Eliminate Jobs

But an even more fundamental response to the butwhatabout-the-unemployed-worker question is pertinent—namely, that free trade is not unique in causing some jobs to disappear while causing others to arise. *Any* substantial change in consumer spending or savings will eliminate some jobs and create others.

For example, if changing tastes prompt consumers to spend more time working out in gyms and less time bowling, some bowling-alley employees will lose their jobs. Some might remain painfully unemployed for a long time. Butwhatabout them? Do those of us who support consumer freedom have the burden of persuading unemployed bowling-alley workers that such freedom is desirable? Does the fact that nearly all changes in consumer spending will destroy some particular jobs mean that government should consider freezing consumer spending in place now and forever?

Of course not.

Whenever government intervention is proposed, it is imperative to avoid being misled by superficial facts. No fact about voluntary exchange is more superficial than the particular piece of geography in which a seller happens to be situated—no ifs, ands, or butwhatabouts. □

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Money Talks?

by Gene Callahan

When discussing business dealings, the phrase "Money talks!" often comes up. A similar aphorism is, "He who pays the piper calls the tune." The idea behind such sayings is that a person who is paying money is the superior of the person receiving the money. The payer gets to determine the nature of the relationship, while the payee can either conform or trade somewhere else.

On its surface, this seems to be a "capitalist" way of looking at things. After all, what could be more market-oriented than the payer's getting what he wants for his money?

I believe that such a view is fundamentally flawed. It obscures the most important aspect of market exchanges, and foments resentment against the market where it needn't arise.

To understand why, we must return to the roots of the marginalist revolution that swept economics 130 years ago. In 1871 the Austrian economist Carl Menger pointed out in *Principles of Economics* that parties to exchange cannot value the traded goods equally. After all, Menger asked, if they do so, why wouldn't they immediately trade the goods back? If Joe values a pig as equal to three chickens when he trades his pig for three of Mary's chickens, why wouldn't he take the pig back in exchange for the three chickens a moment later? Indeed, if exchanges took place when the goods were valued equally, why wouldn't the parties trade back and forth forever?

Clearly, if Joe trades one of his pigs for three of Mary's chickens, he must value three chickens *more* than he does one of his pigs, or he wouldn't bother exchanging. Similarly, Mary must value a pig *more* than she does three of her chickens. In other words, exchanges take place only when the parties *don't* value the goods exchanged equally. Each party values the goods he receives *more* than the goods he gives up.

When we apply this insight to an exchange involving money, we can begin to see the problem with the idea that "money talks." It is true that the laborer must value the wage he receives more than the time and effort he gives up to earn it, or he wouldn't bother working. But it is equally true that the employer must value the labor he receives more than the money he gives up to buy that labor, or he wouldn't bother hiring. Both parties are giving up something they value less in order to receive something they value more. Or, as we might put it more colloquially, no one is doing anybody else a favor.

The person offering money for labor is hoping to gain something, every bit as much as the one who offers labor for money. Neither is the other's benefactor, and neither has an intrinsically superior position in the transaction.

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The factory worker might find himself desperate for a job so that he doesn't lose his house. But the factory owner might find himself desperate for workers so that he doesn't lose his factory. In fact, in modern economies almost everyone both offers goods and services for money, and money for goods and services.

I worked for a time at Stew Leonard's in Norwalk, Connecticut, a business that gained renown as "the world's largest dairy store." Stew's successful operation was studied by businessmen from as far away as Japan. His motto was, "The customer is always right." A customer could return only the bone from a large roast, claim that the roast didn't taste right, and receive a refund. Stew always believed that he would get more business from the customer in the long run by fulfilling a bogus refund request than by turning the customer down. If someone's goal is to maximize his monetary profits, that's not a bad way to do business.

On the other hand, a businessman could also choose to operate like the Soup Nazi on "Seinfeld." That character knew he had the best soups in Manhattan. He also felt he was an artist when it came to creating soups. If a customer didn't feel like playing by his rules—for instance, if the customer asked about the ingredients in a soup—he would throw the customer out of the store. There is nothing "irrational" or "non-economic" about such behavior. The Soup Nazi had decided he would sacrifice some potential monetary gain in exchange for an increase in his artistic freedom.

Renaissance Advance

George Mason University economist Tyler Cowen, in his book *In Praise of Commercial Culture*, notes that just such a decision marked a great advance in artistic freedom during the Renaissance. Throughout the Middle Ages artists had been subservient to their patrons, executing works in whatever manner the patron wanted them. But during the Renaissance, artists began to have their own ideas about what work they were willing to do and just how they would perform it. With Michelangelo, the independent artist had fully arrived. As Cowen says, "Customers paid fantastic fees for the privilege of hiring Italy's most famous artist."[1] Even Pope Julius II, "one of the most powerful men of the sixteenth century," could not force Michelangelo to compromise his artistic standards. When the Pope did not supply the building materials Michelangelo expected for a commission, Michelangelo walked out on him and returned to Florence. "It was the Pope who made concessions to Michelangelo to ensure his return to the project," Cowen writes.[2]

Cowen points out that such behavior "does not contradict the economist's notion of 'consumer sovereignty,' properly interpreted; rather, the artist himself is also a consumer bidding for his own time. If the artist prefers to satisfy his own tastes rather than to receive more money from buyers, that also represents satisfaction of a market demand—the artist's."[3]

The idea that the person offering money in an exchange is superior to the person offering other goods is a vestige of an antiquated, status-based way of viewing social relationships. During the Middle Ages, as Princeton historian Theodore Rabb says, "one's social standing relative to others was determined, at birth, by a web of rights and obligations that depended on land and its products."[4]

In feudal society it was usually the landed nobility who employed others. The employed were regarded as their social inferiors. As a result, the role of a person hiring another for money was usually seen as socially superior to the role of the person hired.

However, in certain cases the person receiving money might have had a higher status than the person paying him. The continuing effect of such a status-based view is apparent when we consider professions where, unlike at Stew Leonard's, "the customer is often wrong." We might include college professors, lawyers, doctors, and skilled tradesmen in such a list. All of those professions had a status above that of an "ordinary" laborer or peasant. To this day, none of those professions treat the customer in the same fashion as, for example, a typi-

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cal supermarket or restaurant does. Doctors give their customers (patients) orders about how to conduct their lives and make them sit for 45 minutes in a waiting room. College professors do not ask students what they want to learn, but tell them what they must learn. Unlike at most stores, where the employees must park in special areas far from the entrance, saving the best spots for the customers, professors typically get the best parking spots at college campuses. The difficulty of getting a skilled carpenter or plumber to show up for appointments is legendary. These examples demonstrate that it is not the mere fact of being paid that makes the difference, but is instead the status attached to an economic role.

Claims of Exploitation

The lingering belief that the person offering money in an exchange is somehow superior to the person offering other goods is damaging to the case for the market economy. It fuels Marxist claims of exploitation and breeds resentment among people who find themselves considered "inferiors" because they exchange their labor for money.

It is true that in the market economy "money talks." But so do labor, oil paintings, heads of cattle, and every other good offered for exchange. All offers are attempts to persuade another to trade. We all create the "economic pie," and we are only "entitled" to those portions of it that we have made ourselves or that we have persuaded others to voluntarily exchange with us. Once we recognize that, we'll see that we're all in this together. □

1. Tyler Cowen, *In Praise of Commercial Culture* (Cambridge, Mass.: Harvard University Press, 1998), p. 93.
2. Ibid., p. 94.
3. Ibid., p. 90.
4. Theodore K. Rabb, *Origins of the Modern West: Essays and Sources in Renaissance and Early Modern European History* (New York: McGraw-Hill, Inc., 1993), p. 163.

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Regulatory Roadblocks to Turning Waste to Wealth

by Pierre Desrochers

The small industrial town of Kalundborg, located 75 miles from Copenhagen, shouldn't be on the radar screen of most visitors to Denmark. It has nonetheless become something of a Mecca for "sustainable development" theorists the world over.

Kalundborg's main attraction, apart from its twelfth-century cathedral, is a network of recycling linkages that have developed over the last three decades between four large industrial plants, the municipality, and a few smaller businesses. This "Industrial Symbiosis," as it is now known, originally comprised five core partners: an Asnæs power station (Denmark's largest), a Statoil refinery (Denmark's largest), a Gyproc plasterboard factory, Novo Nordisk's largest pharmaceutical and industrial-enzymes plant (which produces, among other things, 40 percent of the world's supply of insulin), and the City of Kalundborg.

Beginning in the 1970s a series of deals between these otherwise independent entities gave rise to various recycling linkages. For example, a few years ago, the Asnæs station supplied residual steam from its coal-fired power plant to the Statoil refinery in exchange for refinery gas that was formerly flared as waste. The power plant burned the refinery gas to generate electricity and steam, and sent its excess steam to a fish farm, a district heating system serving 3,500 homes, and the Novo Nordisk plant. Sludge from the fish farm and pharmaceutical processes became fertilizer for nearby farms. Surplus yeast from the biotechnology plant's production of insulin was shipped to farmers for pig food. The fly ash from the power plant was sent to a cement company, while gypsum produced by the power plant's desulfurization process went to the Gyproc gypsum-wallboard plant. The amounts of avoided wastes were significant, including 200,000 tons of fly ash and 130,000 tons of carbon dioxide, while Asnæs saved up to 30,000 tons of coal a year. While most of these linkages are still functional, a few were abandoned and new ones have since been created.[1] (See diagram.)

A Spontaneous Phenomenon

By all accounts the Kalundborg industrial symbiosis was not designed by consultants or financed by Danish government officials, but rather was the result of several distinct bilateral deals between company employees seeking, on the one hand, to reduce waste-treatment and disposal costs, and, on the other, to gain access to cheaper materials and energy while generating income from production residue. Indeed, it was only in the late 1980s that the various participants in the symbiosis first recognized the environmental implications of the partnerships and exchanges that had evolved since the early

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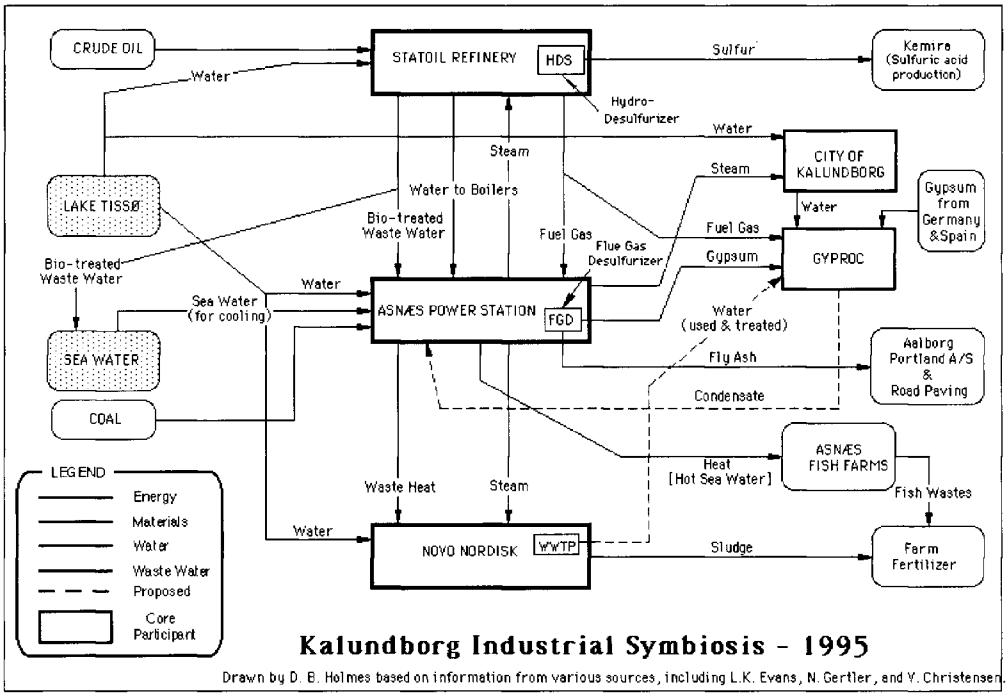

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1970s. There remains to date no higher level of organization managing this interaction.

Jorgen Christensen, a spokesperson for Novo Nordisk, was explicit on this point when asked to describe how people in Kalundborg had "designed" their recycling linkages: "We didn't design the whole thing. It wasn't designed at all. It happened over time."

Henning Grann, a Statoil employee, reinforced this view a few years later: "The symbiosis project is originally not the result of a careful environmental planning process. It is rather the result of a gradual development of co-operation between four neighboring industries and the Kalundborg municipality." Erling Pedersen, CEO of the Industrial Development Council in the Kalundborg region, concurred with this evaluation when he wrote in 1999 that the industrial symbiosis "was not a planned network, but a series of projects initially quite independent from one another. There was no original joint management, but rather bilateral agreements between independent partners." Most interesting is his statement that "the network did not evolve with any academic knowledge of scientific environmental network theories, but as good and economical management practice. All projects required investments and resulted in revenues or savings for the parties involved."[2]

The story of the Kalundborg industrial symbiosis is interesting on at least two counts. First, it illustrates how localized inter-industry recycling linkages have spontaneously developed, most of all because they made good business sense.[3] Second, it shows how modern environmental regulations, hailed by many as the main reason why the environment has improved recently, have actually turned out to be quite unproductive.

Why Kalundborg Would Have Never Emerged in America

Traditionally, dangerous pollution problems in English-speaking countries were handled through the common-law doctrines of negligence, trespass, nuisance, and strict liability. Liability was thus imposed when-

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ever harm resulting from a pollutant could be demonstrated with scientific evidence. Such a system mandated no specific conduct, but allowed private parties both to recover monetary damages for harm caused and an injunction against offenders who did not or could not reduce emissions to a nonharmful level.[4]

In the last three decades, however, this legal approach to industrial pollution has given way to a regulatory system that sets and enforces specific standards of conduct (typically dubbed "command and control"). Despite somewhat catchy names, such as the Resource Conservation and Recovery Act, modern American environmental regulations that deal with industrial waste have been built on the view that byproducts are a nuisance to be destroyed rather than potentially useful resources. The result is that many environmental statutes typically define pollution prevention in a way that excludes recycling and reclamation, while instituting pervasive biases against technological innovation. The result, not surprisingly, is that creating wealth out of industrial waste is now much more difficult than it was in the past.

Kalundborg provides an interesting lesson in this respect. As many commentators have pointed out, the flexibility of the Danish regulatory framework made possible events that would have been prohibited in America. For example, the flue gas that Statoil pipes to Gyproc and the liquid sulfur that Statoil sells to Kemira probably would not have been approved in the United States because both substances would be classified as "hazardous waste." Furthermore, the new resources created from these byproducts would also have been treated as hazardous under the so-called "mixture and derive from" rule, which classifies as "waste" new products that incorporate industrial waste. Also, the movement of sulfur from Statoil to Kemira and of scrubber-ash gypsum from Asnæs to Gyproc would have violated a 90-day-storage rule, which, as its name implies, prevents the accumulation of such material for more than 90 days. In the Danish case, the possibility of a longer storage period made the project economically viable.

The flexibility of Denmark's approach to environmental matters, coupled with the Danish Environment Ministry's encouragement regarding the use of all waste streams on a case-by-case basis, allows firms to focus on finding creative ways to become more environmentally benign instead of fighting the regulator. As a result, they can use byproducts as inputs rather than "virgin" materials that are often virtually identical in chemical composition.

There have probably always been two views of industrial byproducts. One considers residuals to be health and environmental hazards, urging people to take every step to protect both humans and the natural environment against them. The obvious solution to pollution problems then lies in reducing production and in destroying waste. The second approach considers residuals as potential resources from which marketable products can eventually be derived.

Past experience and current regulatory problems suggest that the second approach is both more sensible and economical. Perhaps, then, the development of an institutional framework that requires firms to prevent pollution, but leaves them free to develop new and profitable uses for byproducts, is the real road to sustainable development. □

1. For a concise and updated introduction to the Kalundborg Industrial Symbiosis, see www.symbiosis.dk/.

2. For the sources of these various quotes, see Pierre Desrochers, "Cities and Industrial Symbiosis: Some Historical Perspectives and Policy Implications," *Journal of Industrial Ecology*, Fall 2001, pp. 29–44.

3. Since Kalundborg first began to draw interest on these issues, similar industrial symbiosis has been "discovered" in, among other places, Austria, Germany, Finland, and various American and European petrochemical complexes. My research suggests that similar cases were probably very common throughout history. See my "Cities and Industrial Symbiosis" and "Regional Development and Inter-Industry Recycling Linkages: Some Historical Perspective," *Entrepreneurship and Regional Development*, January 2002, pp. 49–65, for a more detailed discussion of these other cases.

4. For a brief introduction to the topic and further references, see Pierre Desrochers, "Industrial Ecology and the Rediscovery of Inter-Firm Recycling Linkages: Some Historical Perspective and Policy Implications," *Industrial and Corporate Change*, November 2002, pp. 1031–57.

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To the Medical Socialists of All Parties

British Prime Minister Tony Blair's Labour Party created a small furor in Great Britain recently when its National Policy Forum issued a paper suggesting changes that might be made in the National Health Service (NHS) if the party holds power. The paper, "Improving Health and Social Care," covers a lot of ground, but the item that seems to have gotten the most attention is the part about the responsibilities of patients.

"When it comes to the health service patients will be able to expect greater rights—increased choice, faster service, higher standards of care," the report states. "But they must also recognise the duty they owe in return." It goes on: "The concept of reminding patients about the limits of the National Health Service and about their responsibility in using its resources sensibly, is one we want to take forward."

This sounds ominous already. All resources are limited—otherwise they are not resources. The idea that people have a responsibility to use resources "sensibly" may sound unobjectionable. In a regime of liberty, that's not a problem. People take responsibility for their own resources because *they pay the full price of their actions*. When I was a boy my father went around the house turning lights off in vacant rooms, booming, "Who left all these lights on?" (This acorn did not fall far from the tree.) Was he a conservationist? In a way: he was saving his money. And, as if by an invisible hand, he also saved electricity and coal, although it was no part of his intention.

Things don't work quite so smoothly with things like the National Health Service. For a reason that mystifies British officials, Britons don't exercise the responsibility my father demonstrated when using medical services. It hasn't occurred to the officials that the services are underpriced—at approximately zero. Well, if people won't behave responsibly on their own initiative, responsibility might have to be imposed on them.

The report continues: "It may be the case that this could mean formalising the relationship between doctor and patient, between the NHS and those in the communities it serves. There may be other options but this is one way forward that would underline our vision of a society where our duty, collectively, is to provide for all and our duty, individually, is to show responsibility to all."

Again, ominous. Formalizing their relationship is something doctors and patients are capable of doing if they wish—as long as freedom of contract is respected and the patient is paying his own way. Neither of these conditions holds when the government taxes the patients and employs the doctors. What can be done then?

"Not only could this new agreement [responsibility in return for "rights"] set out clearly the standard of care the patient can expect to receive," the report states, "but it would also remind the patient of the recip-

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rocal nature of their relationship with their doctor. . . . Agreements could be drawn up to help people cut down or quit smoking, to lose weight, to take more exercise or to eat a more nutritious diet. The agreement . . . could . . . bind the patient into honouring their duty to the health service, putting the relationship onto a statutory footing."

The authors hasten to add that the agreement would not be "legally binding. [Rather it] could take the form of a joint statement of 'mutual intent.' The idea being not to exclude patients from care but to remind them of the need to use the health service—*a free yet finite service*—responsibly." (Emphasis added.) Just the same, that term "statutory footing" would make me nervous. What would happen if an overweight patient did not follow his doctor's orders to slim down or if a smoker refused to quit? Today the Labour moguls say those recalcitrant patients would not be denied medical services. But what about tomorrow, when patients haven't shown the proper sense of responsibility and the NHS budget is strained?

Missing the Point

According to the *Guardian* newspaper in England, this proposal is not going over well with everyone. Claire Rayner, president of the Patients' Association, condemned it as "oppressive and obscene . . . a nasty middle class document." "She said the implication of the plan was to blame people for their own poor health and suggest that they would have to pay more for healthcare because they had brought their illness on themselves."

The newspaper also quotes Geof Rayner (possibly related to Claire Rayner), chairman of the UK Public Health Association, who said, "We've got to get away from individualising poor health. You don't explain the rise of diabetes by individual lifestyle choices."

This is not entirely correct, of course. People's behavior *can* invite illness. But unless the society is free they don't pay the full costs of their actions. Freedom teaches responsibility.

A Conservative party leader, Dr. Liam Fox, who serves as shadow health secretary, said: "This is yet further interference by the government in how health professionals should treat their patients." He also missed the point.

No one quoted by the *Guardian* said anything like what the U.S. Supreme Court said in the 1941 *Wickard v. Filburn* case: "It is hardly lack of due process for the Government to regulate that which it subsidizes." In other words, if the government is going to provide a service, it will automatically have the power to attach conditions. It's only a question of when.

Since medical services are not found in nature but rather are products of human effort, there can be no right to them, morally or existentially. The "right to medical care" is merely a rhetorical cover for the power of government to control those services. Government can tax everyone to provide "free" services, but the laws of human action will still operate, and no one should be surprised when the state demands certain behavior in return. This is sure to happen as the "free" services are overconsumed to where people have to wait a year or more for heart surgery.

We on this side of the Atlantic should not feel superior when observing what's going on in Britain, for we are heading down the same path. Who among major policymakers and pundits stands for a real free market in medical care and retrenchment by the government? I am reminded of F. A. Hayek's dedication in *The Road to Serfdom*: "To the socialists of all parties." What passes for free-market medical thinking in establishment circles is merely government manipulation of nominally private providers—in other words, fascism. Let's not forget that fascism was just a form of socialism. □

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The Real Population Problem

by Jim Peron

According to one department of the United Nations, some 400 million people have vanished. This wasn't a spate of alien abductions. Instead the UN's Population Division (UNPD) lowered its projected world population figure for 2050 by 403 million. This revision is from the projection of just two years ago. The agency now concedes that the 2050 world population will fall below 9 billion.

The UN has been making such projections for about 50 years. Generally, the projections seem to err on the high side—hence the need for reductions. The UN now says the population in 2050 will be 8.9 billion. But this is its "medium variation" projection, which has always been a tad high. The "low" projection usually misses the mark as well, with the real number being somewhere in between. If the agency's record remains consistent, the actual figure will be between 8 billion and 8.5 billion.

This is significantly below previous projections, which were grabbed onto by various environmental groups to promote their agenda. The U.S. Department of State in 1969 said the world would have a population of 7.5 billion by 2000. This reflected UN projections of the day. According to the UNPD, the figure for 2003 is 6.3 billion, 1.2 billion below 1969 projections.

Using its medium projection, the UN also estimates that by 2050 some 75 percent of the least-developed countries in the world will have birth rates below replacement levels. In these regions the total numbers of births per woman have been cut in half in the last 50 years. More important, much of that drop was in the last ten years.

For some years we "population optimists" have been arguing with the environmental pessimists that the overpopulation problem was illusionary. There was a population problem, but not the one for which everyone was planning: children and working-age individuals, as a percentage of the population, would be dropping steadily as the world's population aged faster than at any time in history. The cause of this is easy to understand: the number of infants born is decreasing every year, while life spans continue to grow because human existence has improved so much. Thus higher percentages of the population are elderly.

The most recent UN numbers verify the case of the optimists once again. The average life expectancy in the world is now at 64.6 years. But by 2050 the UN estimates it will rise to 74.3 years.[1] During that same period the average number of children born per woman will decline from 2.83 to 2.02. Population stability requires a rate of 2.1.[2]

Currently some 63 nations have birth rates low enough to lose population.[3] By

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Many welfare policies were created during the baby boom and are built on the premise that workers will always exceed beneficiaries. But today's demographics make it clear that these schemes can't work much longer.

2015 the UN estimates that 82 nations will fall below replacement level. And by 2050 it estimates that 156 nations will be below replacement, with another ten on the edge. Only 23 countries will have fertility rates over 2.5.

The only reason that world population will still grow in 2050, in spite of declining birth rates, is that so many people will be living longer. Longer life spans, not high birth rates, have been the main reason for the world's population explosion over the last 50 years. But the population explosion that began in 1950 will flicker out by 2050, with world population figures going into decline.

This huge drop in birth rates, coupled with longer life spans, spells disaster for the welfare states of the world, especially for programs that support the elderly. These programs rely on people of working age to pay in while the elderly collect. But if the number of workers declines, while the number of recipients continues to increase, disaster looms.

In 2000 the world had 606 million people over the age of 60. By 2050 this figure is estimated to grow to 1.9 billion.[4] More incredible is the projected increase for those who live past 80 years. In 2000 there were 69 million such people worldwide; by 2050 this will increase to 377 million.[5] Living to 100 was once an anomaly. In 2000, just 167,000 people worldwide accomplished that feat. By 2050 it is estimated there will be 3.3 million people over the age of 100. Projections show that the United States will have 471,000 centenarians by 2050, exceeded only by Japan, which will have over 1 million.[6] Those over 80 in the United States will total more than 29 million.[7]

Welfare State Problems

What is even more troublesome is that these trends are most pronounced in the welfare states. Sweden will see its elderly (60-plus) increase from the current 22 percent of the population to 33 percent, while the percentage of children (up to 14) will be just over 15 percent. Just 51 percent of the 2050 population will be of working age (15–59), and many will not be employed. A minority of the population (subtracting the unemployed) will be trying to support a majority.[8] In the United Kingdom the percentage of elderly will increase from 21 percent to 30 percent.[9] In Slovenia only 45.6 percent of the population will be of working age. The rest will either be elderly or children.[10] In New Zealand the over-60 crowd will almost double—from 15.7 percent to 29 percent. Children under 15 will comprise just 16.3 percent.[11]

Add in all the various recipients of government largess, and a growing majority of people will be sustained by a shrinking minority. The burden on young workers will have to increase substantially just to sustain the current system. Clearly that can't work.

When we look at the percentage of children in each country, it quickly becomes apparent that the problem will get much worse. What problems these programs face in 2050 will be nothing compared to those which will arise in the years after. The UNDP projects that the percentage of children will drop from 30.1 percent in 2000 to 20.1 percent by 2050.[12] This will happen even though infant mortality has plunged dramatically and will continue to do so. The 1995–2000 infant-mortality rate worldwide was 60.9 children per 1,000 live births. The

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UN projects that by 2050 this will drop to 21.5.[13]

Many welfare policies were created during the baby boom and are built on the premise that workers will always exceed beneficiaries. But today's demographics make it clear that these schemes can't work much longer. While it is true that over a dozen nations today have large numbers of children (that is, future workers), these are almost all in Africa and none of these nations are welfare states. By 2050 some 22 nations, most of them welfare states, will have a minority of workers. These nations include Austria, Czech Republic, Italy, Japan, Greece, Estonia, Russia, Spain, and Switzerland. Another 19 will have working-age populations above 50 percent but below 53 percent, including Finland, France, Germany, and Sweden.

The UN report notes: "Europe is the major area of the world where population ageing is most advanced. The proportion of children is projected to decline from 17 per cent in 2000 to 15 per cent in 2050, while the proportion of older persons will increase from 20 per cent in 2000 to 35 per cent in 2050. By then, there will be 2.4 older persons for every child and more than one in every three persons will be aged 60 years or over. As a result, the median age will rise from 37.7 years in 2000 to 47.7 in 2050."[14]

Like a pyramid scheme, in a welfare state the number of payers has to grow faster than the number of recipients. As long as that happens the illusion that the system works can be maintained. But current trends indicate that the opposite is happening. UN projections for the developed world, where most welfare states are, show that the working-age group will see its numbers shrink by 0.32 percent per year. In the same countries, however, those over 60 will see their numbers grow by 2.29 percent per year and those over 80 will grow by 3.39 percent.[15]

Political attempts to counteract these trends will consist of short-term fixes. The problem, however, is long term and increasing, and there is no reason to expect things to change dramatically. If anything, birth rates may be overestimated, compounding the problem.

Only short-sighted political agendas prevent governments from grappling with this demographic disaster. But the aversion to facing facts will become increasingly difficult with each passing year. Private alternatives will have to be more seriously considered if the workers of today are to be able to look after themselves when they grow old. Reality can only be faked for so long. □

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2. Ibid., p. 36.
3. Calculations such as this, unless otherwise stated, are made from the data provided in ibid. and are gleaned from numerous pages throughout this section.
4. UN Population Division, "World Population Prospects: The 2002 Revision, Highlights," February 26, 2003, www.un.org/esa/population/publications/wpp2002/WPP2002-HIGHLIGHTSrev1.PDF, p. 16.
5. Ibid.
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7. Ibid.
8. Annex Tables, p. 61.
9. Ibid.
10. Ibid., p. 60.
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12. Ibid., p. 57.
13. Ibid., p. 46.
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15. Highlights, p. 17.

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Government-Reformulated Gas: Bad in More Ways than One

by Michael Heberling

The amended Clean Air Act (CAA) of 1990 called for cleaner automobile-engine combustion and a reduction in tailpipe emissions. To meet these goals, the Environmental Protection Agency (EPA) directed the petroleum industry to modify the composition of gasoline to comply with the "Oxygenated" and "Reformulated" Gasoline (RFG) Programs. While only those parts of the country with the most severe pollution (high ozone or carbon monoxide levels) would be required to participate in the programs, many city, county, and state governments in less-polluted areas volunteered their citizens to participate as well. The transition to the new environmentally friendly gasoline began in 1992. These programs would eventually affect over 100 million people in 19 states and the District of Columbia. Today, over 30 percent of the gasoline sold in the United States is RFG.[1]

The EPA requires the new reformulated gasoline to have an oxygen content of just over 2 percent to help the gasoline burn cleaner. The two primary oxygenate additives are ethanol (corn alcohol) and methyl tertiary butyl ether (MTBE). Because these additives are not pure oxygen, the amount needed to meet the required oxygen content is significant. For example, since MTBE is only 19 percent oxygen, RFG made with this oxygenate additive must contain at least 11 percent MTBE.[2]

For environmentalists ethanol presents a dilemma. On the plus side it is a renewable energy source. On the minus side it is highly "volatile." (It evaporates far more rapidly than gasoline.) In the summer the evaporative emissions of ethanol *before combustion* are a major contributor to smog. This serves to negate the advertised benefit of reduced tailpipe emissions.[3] It is therefore not surprising that advocates of ethanol only want us to look at what happens *during and after* combustion. To offset this problem, ethanol needs to be blended with a more expensive, lower-volatility gasoline that is not readily available in the market.[4] To make the situation worse, the ethanol separates from the gasoline if it is transported by pipeline over any significant distance. Because of this distribution problem, ethanol needs to be mixed with non-oxygenated gasoline as close to the final market as possible.[5]

Given all these inherent problems (environmental, cost, and logistical), ethanol is extremely fortunate to have very strong sup-

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port from the "Big Corn" lobby. This is a coalition of Midwest politicians, big agriculture, and such agri-business firms as Archer Daniels Midland. Ethanol is exempt from federal excise taxes.

MTBE is derived from natural gas. It has been used since the late 1970s in low concentrations as an octane booster. This coincided with the phase-out of lead in gasoline. Compared to ethanol, MTBE is far less expensive and it can be more easily added during the refining process. For these reasons, MTBE is used in over 87 percent of the reformulated gasolines. The oxygenated-gasoline mandate increased MTBE production from 83,000 barrels per day in 1990 to 269,000 barrels per day by 1997.[6]

While the RFG program is advertised as being "great for the environment," the benefits for the consumer are hard to find. Since the oxygenate additives can cost up to twice as much as gasoline, reformulated gasoline can cost up to 10 cents more per gallon than the non-oxygenated gasoline.[7] Unfortunately, it gets worse. Both major oxygenated additives have a lower energy content than regular gasoline, MTBE roughly 20 percent less, ethanol 30 percent less.[8] This results in a 2–3 percent loss in fuel efficiency. Translation: Consumers pay more to get fewer miles per gallon than before.

Vanilla Gasoline

Before the reformulated-gas mandates started to kick in, the logistics of fuel distribution were relatively simple. The product was homogeneous; all gas was "vanilla." When one area of the country was experiencing a higher demand, it was easy to redirect more gas from another area to meet it. With RFG, in addition to "vanilla" we now have "rocky road" gas, "butter pecan" gas, and "pistachio almond" gas. While some parts of the country will require RFG all year long, others will only need a special gas in the summer to combat high ozone levels. Still other areas will only need a special gas in the winter to address high carbon-monoxide levels. As a result of the requirement for multiple types of gasoline that vary both by location and season, the logistics of fuel distribution have become a nightmare for the petroleum industry.

Unfortunately for the consumer, multiple flavors of gas are not interchangeable. If one part of the country is running low on "rocky road" gas, you cannot divert surplus "butter pecan." Thus it should not be surprising that since the implementation of the RGP there have been many shortages (with accompanying price spikes) in certain parts of the country.

As if on cue, the media responded with a barrage of headlines charging Big Oil with "price gouging" and "obscene profits." Grandstanding politicians got airtime to "call for investigations." However, nothing ever came of these investigations, and the news media dropped the subject because the villain was not Big Oil but Big Government and its "environmental gas" mandate. As Jerry Taylor of the Cato Institute put it during testimony before Congress, "This congressionally mandated balkanization of the gasoline market has seriously hampered the flexibility that refiners would otherwise have to react to spot shortages."[9]

"Environmentally-friendly" MTBE has another problem. Since MTBE is extremely soluble in water, it moves farther and more rapidly through both groundwater and surface water than gasoline. A study by the Vermont Agency of Natural Resources (ANR) found that MTBE migrated nearly ten times the distance of the non-MTBE gasoline contaminants.[10]

In tests conducted by the U.S. Geological Survey, MTBE has been detected in approximately 20 percent of the ground water where RFG is sold. This compares to a 2 percent detection rate in non-RFG areas.[11] It is increasingly being found in municipal drinking-water wells and reservoirs. Even in extremely small amounts MTBE makes drinking water unusable. MTBE causes the water to smell and taste like turpentine. For some reason, humans are hypersensitive to even small traces of MTBE. We are able detect MTBE-tainted water at ten times lower concentrations than water containing just gasoline.[12] As a result of this low thresh-

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old, it only takes a spoonful of MTBE to completely contaminate enough water to fill an Olympic-sized swimming pool.[13]

To make matters worse, the cleanup of MTBE-contaminated water is more difficult and costly than water contaminated with just conventional gasoline. Much of the MTBE contamination remains "beyond the reach of even the most sophisticated cleanup technologies."[14] Instead of degrading over time, MTBE has a tendency to accumulate. So as long as we have a mandate for reformulated gasoline with MTBE, water pollution will only get worse.

Most MTBE-contaminated ground water has been traced to leaking underground storage tanks. This comes as quite a surprise since the federal government ordered gas stations to replace their old underground tanks with double-walled tanks and pipes in an effort to prevent environmental damage. The conversion was to have been completed by 1998. But in California a "state study found that two-thirds of the upgraded tanks and pipes tested in Yolo and Sacramento counties [were] leaking MTBE."[15]

These new upgraded storage tanks cost consumers $2 billion. Even more tragic is the fact that thousands of gasoline stations across the country, mostly the "mom and pop" operations, were forced out of business.[16] They simply could not come up with the $100,000 for "the upgrade."[17]

MTBE Makes People Sick

In November 1992 about 200 residents of Fairbanks, Alaska, reported having headaches, dizziness, eye irritation, a burning sensation in their noses and throats, disorientation, and nausea. These health problems were linked to the newly introduced reformulated gas containing MTBE. So many people complained that the governor banned its use after only three months.[18]

As the use of reformulated gas increased across the country, so did the incidence of illness. Thousands of people became ill after being exposed to MTBE/gasoline fumes (before combustion), MTBE/gasoline exhaust (after combustion), and MTBE-tainted water. North Carolina banned MTBE after it was classified as a probable human carcinogen.[19] At its annual meeting in 1994 the American Medical Association passed a resolution calling for a moratorium on the use of oxygenated fuel based on the risks posed by MTBE.[20]

In addition to Alaska and North Carolina, at least 12 other states (Arizona, California, Colorado, Connecticut, Iowa, Maine, Michigan, Minnesota, Nebraska, New York, South Dakota, and Washington) have taken steps independent of the federal government to limit, phase-out, or ban MTBE.

As the biggest champion of reformulated gas, the EPA continually dismissed the growing criticism of MTBE. The agency's official position was that while MTBE posed some risk, it was no greater than the risk of other gasoline components. The EPA responded to the ground water contamination problem by simply "providing information, intensifying research, and focusing on the need to minimize leaks from underground fuel tanks."[21]

For six years the EPA opposed all measures to limit the use of MTBE. It was not until 1998 that the agency made MTBE a "potential candidate" for regulation under the Safe Drinking Water Act. Later that year the EPA finally established an independent panel to investigate the problems associated with the reformulated gas program. According to observers, the panel's 1999 final report recommended, among other things, "that Congress act to remove the current Clean Air Act requirement that 2 percent of RFG, by weight, consist of oxygen," that the "use of MTBE should be reduced substantially (with some members supporting its complete phase-out), and that Congress should act to provide clear federal and state authority to regulate and/or eliminate the use of MTBE and other gasoline additives that threaten drinking water supplies."[22]

Given these damning findings, the EPA was forced to admit that its advocacy of the MTBE fuel additive had been a mistake.[23]

As a result of the government's overzealousness in "helping the environment," people pay more per gallon of gas, get fewer miles per gallon, and get sick. The biggest

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irony, however, is that the environment is worse off thanks to this "environmental program." So far, the misguided policy has cost consumers untold billions of dollars. Unfortunately, the environmental and economic nightmare caused by government gas is not over. Be prepared to cough up another $30 billion or more to deal with the clean-up and phase-out costs of MTBE.[24]

What Next?

From the current devastation wrought by the EPA, stand by for still more government command and control of the nation's fuel supply. With MTBE rapidly falling into disfavor, that just leaves ethanol. The prospect of having ethanol as the only game in town has Big Corn salivating. In June the Senate approved an amendment to the energy bill that would mandate the use of ethanol in every state except Alaska and Hawaii by 2012. This new rule would also ban the use of MTBE. While the House version also supported ethanol, it left the resolution of the MTBE problem with the states.[25]

An alternative solution, based on common sense, calls for a policy that objectively weighs both environmental and economic trade-offs. With this criterion, a strong case can be made that the EPA should just get out of fuel micromanagement altogether. As Michael Centrone observes: "the need for oxygenated fuels may be unfounded inasmuch as 75–85% of [the] smog in major cities is from non-automobile sources and tailpipe emissions of new cars are 95% lower that they were in the 1960's."[26] Eric Stork, a former EPA employee, stated that "reformulated gasoline was a good idea 30 years ago, but in cars built in 1983 or later, the fuel is obsolete and pointless."[27]

It is time for us to rein in the EPA so that it can no longer do damage to the environment, to our health, to the consumer, or to the business community. □

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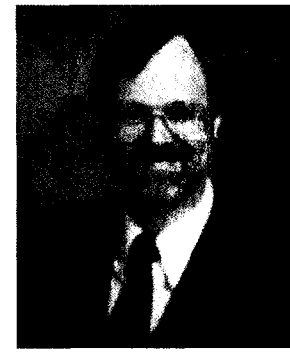

Andrew Johnson and the Constitution

Before 1998 "Andrew Johnson" used to be the answer to the question "Who was the only U.S. president to be impeached?" But Andrew Johnson, the self-educated tailor, deserves to be remembered more for his ideas, especially his defense of the Constitution in a troubled time.

Johnson was born in poverty in North Carolina in 1808 and moved to Greenville, Tennessee, as a teenager when he heard the town needed a tailor. He established a strong business there and at age 26 won election to the state legislature, where he spent several terms. He strongly supported fellow Tennessean Andrew Jackson (president 1829–1837), and eventually won election to the U.S. House and Senate. In Congress, Johnson became a constitutional watchdog on federal spending and special subsidies to favored groups. The protective tariff he called "a system of humbug," and he wanted entrepreneurs, not the federal government, to build the nation's canals and railroads. He often tried to get a law passed for across-the-board pay cuts for federal employees, whom he resented because they lived comfortably in Washington from the tax dollars of hard-working artisans, farmers, and laborers.

Charity, Johnson argued, begins with people, not government. This issue came up when he ran for governor of Tennessee in 1853. Gustavus Henry, the Whig candidate, attacked Johnson vigorously in a public debate for voting against a bill to give federal aid to Ireland. The severe potato famine, Henry insisted, called for American help. Johnson responded that people, not government, had the responsibility of helping their fellow men in need. Any politician could be generous with other people's money, which was forcibly collected in taxes. He then took from his pocket a receipt for the $50 he had sent to the hungry Irish. "How much did you give, sir?" he challenged Henry, who had given nothing. The audience, according to the Memphis *Appeal*, gave Johnson "prolonged and deafening applause." Such adherence to the Constitution, Johnson believed, helped him narrowly win the governor's chair that year.

When the Civil War began, Governor Johnson left Tennessee rather than break with the union. That loyalty endeared him to President Lincoln, who asked the Democrat Johnson to be his vice-presidential candidate in the 1864 election. The Lincoln-Johnson campaign won, and when Lincoln was assassinated Johnson became president for four turbulent years.

As president, Johnson was not a consistent devotee of liberty. He believed that blacks were not as capable as whites, and he was reluctant to give blacks full voting rights. But when the Thirteenth Amendment (abolishing slavery) became law, Johnson, as a strict constitutionalist, "fully recognized the obligation to protect and defend that class of our people whenever and wherever it shall

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become necessary, and to the full extent compatible with the Constitution of the United States."

Johnson found himself caught in the middle. On one hand were southern racists, who passed Black Codes that denied basic civil liberties to former slaves. On the other were Radical Republicans who not only wanted full voting rights for blacks, but sometimes special privileges as well. For example, Republicans had set up the Freedmen's Bureau during the war to help freed blacks get food, clothing, and other necessities of life. After the war, the Freedmen's Bureau expanded its efforts to help blacks get land and education as well. In 1866 Congress voted to extend the life of the Freedmen's Bureau and expand its scope.

Vetoes Bill

Johnson, however, vetoed the bill. In a nutshell, his view was this: Civil liberties for blacks, yes; special legislation, no. "In time of war," Johnson said, "it was eminently proper that we should provide for those who were passing suddenly from a condition of bondage to a state of freedom. But this bill proposes to make the Freedmen's Bureau . . . a permanent branch of the public administration, with its powers greatly enlarged." These powers "in my opinion are not warranted by the Constitution."

Johnson built his case around the provisions in the bill that put the government in the business of establishing schools for blacks and of taking land from plantation owners to give to former slaves without due process of law. On the first point, Johnson noted that Congress "has never founded schools for any class of our own people, not even for the orphans of those who have fallen in the defense of the Union, but has left the care of education to the much more competent and efficient control of the States, of communities, of private associations, and of individuals."

The president hoped that blacks would be protected in their civil liberties and would thereby use their freedom to gain skills and work their way up in society. "The idea on which the slaves were assisted to freedom was that on becoming free they would be a self-sustaining population." He added that "any legislation that shall imply that they are not expected to attain a self-sustaining condition must have a tendency injurious alike to their character and their prospects."

Granted, Johnson was overly optimistic that his southern brethren would allow blacks sufficient civil liberties to compete for jobs and establish fair contracts. But, as in the earlier case of charity to the Irish, he believed that compassionate people, not a government program, were the solution to the problem. They would build the schools and train the newly freed slaves. He was ever faithful to the Constitution when he said that establishing schools was a state, not a federal, function and that the federal government should not favor "one class or color of our people more than another."

Interestingly, Johnson's vision of self-help for blacks somewhat paralleled that of black leader Booker T. Washington, who agreed that caring people, not bureaucrats at the Freedmen's Bureau, needed to take the lead in promoting black education. In the spirit of Johnson's veto of the Freedmen's Bureau, Washington set up Tuskegee Institute, with help from whites, as a black-operated college. Blacks and whites also worked together to set up Fisk College and Meharry Medical College in Nashville. In fact, dozens of private black colleges were established in the years immediately after emancipation. Black literacy skyrocketed from 20 percent in 1870 to 83 percent in 1930, a period marred by forced segregation. That increased literacy was the tool that blacks used to win their struggle to have their rights recognized in the coming decades.

Andrew Johnson's arguments are still cogent today. The Constitution does not guarantee special privileges for any class of citizens. □

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The Loss of a Scholar: Marjorie Grice-Hutchinson

by Norman Barry

On April 12 the free-market tradition lost an important scholar with the death, in Málaga, Spain, of Marjorie Grice-Hutchinson. She was 93.

Although English-born she spent much of her life in Spain and made the study of that country's history and intellectual tradition her life's work. Her reconstruction of its liberal past was unparalleled.

Murray Rothbard often said that theorizing about freedom and the market began with the School of Salamanca in late-sixteenth and early seventeenth-century Spain. It was then taken up by the French laissez-faire school of Jean Baptiste Say and Frédéric Bastiat, and reached its apogee with the Austrian School beginning in 1871. Rothbard regarded the more famous British classical tradition of Adam Smith and David Ricardo (especially) as an unfortunate aberration. Did not their obsession with the labor theory of value, neglect of subjective utility, and almost complete ignorance of entrepreneurship lead ultimately to Marxism and the eclipse of real liberalism in the tragedy of the twentieth century? As Grice-Hutchinson pointed out, with brilliant scholarship, almost all the features of the theory of the market and the limited state were present in Salamanca.

Although Joseph Schumpeter, in his *History of Economic Analysis*, paid some attention to Salamanca economists, it was Grice-Hutchinson who subjected them to thorough analysis.[1] She was a talented woman: not only was she fluent in Spanish, French, and German, but she also had the competence in Latin essential for an understanding of the medieval documents of the Catholic Church, through which the economics of Salamanca were expressed. Originally a graduate student of Spanish literature, she became a lecturer in Spanish at Birkbeck College, London University, and came across the School of Salamanca. In the late 1940s she got to know F. A. Hayek, who was familiar with Salamanca in the history of liberal thought. He supervised her Ph.D. on the monetary theory of the School.

We have to be aware of the significance of religion in the emergence of classical-liberal ideas, for many of its main features seem, superficially, to be antithetical to religious belief. One obvious example is the prohibition of usury, the charging of interest on purely monetary loans, which was a feature, in some form, of almost all creeds. Spain is important here, for Christians, Jews, and Muslims (Moors) lived side by side in the Middle Ages under their respective religious and legal codes. This lasted until 1492, when the Jews were expelled, as eventually were the Moors. All three codes prohibited usury in various ways (Jews, for example, were not

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forbidden from charging monetary interest to Gentiles).

But as Grice-Hutchinson showed in her masterly *Early Economic Thought in Spain, 1177–1740,* business life went on and the restrictions were overcome by a certain amount of casuistry.[2] As she said, this hypocrisy ensured that Spain was the leading economy in Europe. Successive Catholic kings, despite protestations of their virtue and adherence to strict canon law, were not overzealous in its enforcement for this would have meant a considerable loss in revenue.

The later scholastics of Salamanca were all priests (either Jesuit or Dominican), but had no difficulty accommodating market economics to Catholicism. Their major, but not only, contributions were to the theories of value and money (where a subtle overcoming of the prohibition of usury was imperative). These theories were especially important because their incorporation of the theory of money into a general theory of value was unmatched until the neoclassical synthesis of Carl Menger, Léon Walras, and William Stanley Jevons in the 1870s. What the men of Salamanca demonstrated was the relationship of value to price. This was significant because at the time Catholic orthodoxy was not prepared to grant legitimacy to the whims of the market. There was developed, then, the theory of the "just price," which gave a patina of morality to the otherwise "sordid" results of exchange governed by self-interest.

Market Price Is Just

The School of Salamanca managed to show that the market price *is* the just price, an evaluation of goods and services untainted by lying, cheating, or theft. Price was described, not euphemistically, as the outcome of the "common estimation" of the people. And here demand was crucial, for as Domingo de Soto said, "want is the basis of price."[3] It is true that at the time there were elements of a cost-of-production theory of value (based on labor inputs) and a lingering belief that certain things were too important to be left to the market. But this was not the way of the priests of Salamanca, who, when it came to morality, were correctly concerned only with human conduct in exchange. Indeed, as Grice-Hutchinson acutely observed, the School of Salamanca was particularly hostile to the cost-of-production theory because it allowed producers and merchants to raise the prices of goods above market-clearing levels. The market was moral, and entrepreneurship was both just and essential for human progress.

Marjorie Grice-Hutchinson, in a rare online photo.

Her only omission was any discussion of why the School never discovered the concept of the margin. Its members felt that there was a distinction between value in use and value in exchange—a glass of water is very useful but it costs virtually nothing, while a diamond ring is useless but is worth a fortune. If only they had understood the margin (the value to a person of the next unit of a good, not the entire supply) they would have realized why that same glass of water is worth a lot in the desert and the ring nothing. There is no distinction between value in use and value in exchange.

The school's monetary theory was undoubtedly influenced by events. Spain had colonized large parts of the New World and transmitted vast amounts of gold and silver to the mother country in the sixteenth and seventeenth centuries. The increase in money dramatically drove up prices. In a superb piece of economic history, Grice-Hutchinson describes the devastating effect this had on the Spanish economy. Productivity plummeted, capital took flight, treasure was wasted on pointless wars, and Spain began a long-term decline.[4]

But Grice-Hutchinson goes beyond history. She shows how the School of Salamanca pioneered the quantity theory of money and the purchasing-power theory, and explained credit creation by banks. It demonstrated how foreign exchange oper-

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ated to expand trade and taught that monetary loans were not usurious. Departing from the medieval tradition, Salamanca demonstrated that ultimately the value of money was determined by supply and demand, and that currency could be bought and sold like any other good. People would not buy one that had been debased.

Marjorie Grice-Hutchinson did not enjoy the fame that some in the classical-liberal tradition have lately achieved, but she was tremendously respected. She was awarded the Order of Civil Merit by her adopted country and made a Member of the British Empire by her own. She married a landowner and farmer, and was prominent in the community at Málaga. A generous donor, she funded an agricultural scientific-research unit at the University of Málaga. One of her many publications was a history of the (private) English Protestant Cemetery in Málaga, which was threatened with closure.

We will remember her for her quiet but formidable scholarship, the diligence of her research, and her unfailing gift for understanding what is important in economic and social thought. □

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2. Marjorie Grice-Hutchinson, *Early Economic Thought in Spain, 1177–1740* (London, Allen and Unwin, 1978).
3. *The School of Salamanca*, p. 83.
4. *Early Economic Thought in Spain*, ch. 4.

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The Economic Foundation of Freedom

by Howard Buffett

A clear understanding of the economic foundation of freedom and its ramifications is required by the person who strives to be an effective disciple of human liberty.

In a material sense, the economic achievements of American freedom in the last 150 years present the greatest phenomena of all history. In this relatively short period, our freedom has released and channeled human energy of such potential that an entirely new and hitherto undreamed-of world has been created.

What explains all this?

Some people have asserted that Americans are a superior race, smarter than any previous people. Not so. I have never seen or heard any evidence to indicate that Americans are an intellectual aristocracy. Perhaps it was our fortune to descend from superior pioneer stock. I don't know. In any event such a superiority, if it existed, cannot begin to explain the fantastic material achievements of this nation in the last 150 years.

Some would have you believe that the natural resources of America were the decisive factor. Not so. Other lands are as rich or richer in natural resources. South America and Mexico are examples.

Nor has the human situation changed during this period. People are the same, and the earth is the same size and constitution as it was when Socrates was holding forth in Athens.

Here, for the first time in human history, human energy was freed from arbitrary authority. Here for the first time man was able to make and carry out business ventures individually, or in relationships with others, unrestrained by unjust man-created obstacles. In America, men like Edison, Ford, Alexander Bell, and others, were free to invent and produce new products without being blocked by political authority.

Here in America man was on his own, to make the most of whatever intellect, tools, and resources he could assemble by his own personal efforts.

Human energy works efficiently to supply human needs and satisfy human desires only when and where and precisely to the extent men know they are free.

For the first time in history, that freedom was affirmed and spelled out in the Constitution of the United States. Americans were henceforth to be unrestrained by political considerations.

But this elimination of political restraint was but a part of the change from the previous economic climate. Equally important was that, for the first time in history, men

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The late Howard Buffett was a U.S. representative from Nebraska (1943–1949 and 1951–1953). This article, condensed from a lecture at Midland College in Fremont, Nebraska, is reprinted from The Freeman: Ideas on Liberty, *December 1956. For more information on Buffett see Joseph R. Stromberg, "Howard Homan Buffett: Old Rightist Extraordinaire" at www.antiwar.com/stromberg/s042401.html.*

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had a government organized on the principle that a basic purpose of government was to enable the individual to receive and enjoy the full fruits of his own labor.

Heretofore, from the Pharaohs on down to King George III, government in greater or lesser degree operated on the theory that people were subjects, that their person, their current production, and their property belonged to the rulers. The Constitution rejected that theory in toto.

This revolutionary concept can best be understood by an examination of the alternative ideas concerning production and its distribution.

The right of a person to the product of his own labor is the foundation of economic liberty, declares Dr. F. A. Harper, in his scholarly essay, *Liberty: A Path to Its Recovery.* He points out that "the question at issue is how to distinguish between what is mine and what is thine."

There are three ways to handle this problem:

1. Each person may have whatever he can grab.
2. Some person other than he who produces the goods and services decides who shall have the right of possession or use.
3. Each person may be allowed to keep whatever he produces.

These three methods cover all the possibilities; there are no others.

When the economic situation is reduced to these three clear-cut alternatives, the problem of achieving justice does not seem too difficult.

The first method of operation, under which each person can have whatever he can grab, is obviously unjust and impossible. It would return us to the jungle law that "might makes right." Moreover, it would soon reduce individual economic effort to the absolute minimum required for existence. Certainly there is no reason in trying to produce wealth beyond immediate needs if one could expect to be deprived of it at any moment.

So the first method can be rejected outright.

The second method of handling economic production would provide that someone other than the person who produces goods and services shall decide who shall have their possession or use. This method of determining the rights of possession is practiced in every authoritarian society. It allows those who hold the coercive power of government to confiscate the fruits of any producer's labor.

To accept this theory, you must hold two strange concepts: (1) that a nonproducer is better qualified to judge the correct use of what you have produced than you are; (2) that a nonproducer has a right to seize the fruits of your labor.

The late Justice Oliver Wendell Holmes once declared that someone must exercise command of the disposition of goods and services that have been produced, and that he knew of no better way of finding the fit man than the competition of the market place.

So it would seem that the second alternative, that someone other than the producer shall decide who shall enjoy the fruits of the producer's labor, is similar to the first method. One is a private seizure outside any law; the second is a public and legalized seizure, but without justice.

Private Property

Thus we come to the third method, whereby the producer has the right to the products of his own labor. It is the only economic pattern consistent with economic liberty.

Obviously if a person has exclusive rights to that which he has produced, that right is ownership. If all persons are to have the right to the product of their own labor, they are foreclosed from a claim to the product of another's labor.

If I have a right to the corn grown on my own land, certainly I have no claim on the cotton produced on another person's land. Otherwise his rights will be violated and no property is safe.

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So far the right of a person to the product of his own labor would seem to be obvious. How then, have we arrived at our present situation?

Today's situation is the result of an alarming and devious governmental intervention in the economic affairs of the nation for objectives not contemplated by the men who wrote the Constitution.

Historically, in America the producer was protected by government in the enjoyment of the fruits of his labors. That protection of his property explains the glorious material progress already recounted.

Taxation Without Representation

The last 40 years have seen a gigantic expansion of political power over economic affairs by the federal government. This change is linked by many scholars to the passage of the income tax law in 1913. This law revolutionized the taxing system in two ways:

1. It gave the government new powers over the economic status of the individual. This change has curtailed the ability of the individual to achieve economic independence.
2. The part of his production taken from the producer cumulatively increases the power of the federal government proportionately with the increase in its income. This power is not created; it is simply taken away from the people by those in government.

In the 1930s a further sharp step-up in the centralization of power took place. Its scope can best be understood by quoting from the annual message to Congress by the President on January 3, 1936:

"In thirty-four months we have built up new instruments of public power. In the hands of a people's government this power is wholesome and proper. But in the hands of political puppets of an economic autocracy such power would provide shackles for the liberties of the people. . . ."

That presidential statement touched a critical issue. As he pointed out, public power "in the hands of political puppets of an economic autocracy" could "provide shackles for the liberties of the people. . . ."

But the reverse is also true. Economic power in the hands of those holding political power can also provide shackles for the liberty of the people.

The Power to Control

It would be salutary if the American people could objectively and effectively ascertain how far this increase of economic power by the government has gone. Then we would know exactly where we are in the trend away from the freedom of our ancestors. But for us at this moment it is essential to learn why the separation of economic power from political power is so important.

Students of liberty offer this explanation. Power is the instrumentality of control by men and groups of men over other men.

George Sokolsky, noted columnist, says it this way: "When human beings become dependent upon the political power of the state for their livelihood, the independence of person must disappear. It is the identification of economic power with police power that destroys the right of the individual to liberty."

The transfer of economic power into political hands takes many forms. In 1932 about 2.5 million people received a check from the government every month. Today about 20 million receive a government check every month. What is the effect on the freedom of this great segment of our people being more or less dependent on the political authorities for their daily bread? The question is not easy to answer.

Something of its import may be gained from the old rhyme that goes about like this:

> So runs the law and so the law will run
> 'til the race of men be still,
> That he who eats another's bread
> Must do the other's will.

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Desire for Security

Any discussion of the status of the economic foundation of freedom is incomplete without some attention to a historic human urge—the desire for security. This intense human desire is reflected in the so-called social legislation politicians have placed on our statute books.

Will this legislation fulfill its promises? If you think so, consider this rarely mentioned fine print clause. *If the government is to guarantee you* what the consequences of your actions will be in this case, security, then the government must take control of your activities. For with responsibility—even self-arrogated responsibility—must go authority.

This means that if politicians are to supply your security, they must control your work, your spending, and your saving. Witness crop controls. In that event you have traded the reality of liberty for the promise of security.

History elsewhere indicates that government-provided security is a mighty poor mess of pottage in exchange for man's birthright of freedom. There is, I suggest, no valid reason to conclude that modern man or modern conditions have changed any of the eternal verities concerning power and liberty.

In his book, *The Promises Men Live By*, Harry Scherman, organizer and long-time president of the Book-of-the-Month Club, has set out a course of action that deserves the attention of Americans concerned about the future of their country. Here is his suggestion:

> If, as an individual, you really have some concern about the best way to change our present world to a better one, not a bad principle is to identify the enemy.
>
> It should not be true, but unfortunately it is, that your immediate enemies remain, as they always have been, your rulers—your government. At all times, it is a wise thing to suspect both their intellectual honesty and their intelligence in economic matters.
>
> Nothing can be lost, everything can be gained, by doing so. Make them prove themselves in these respects, and be utterly ruthless in your judgment.
>
> When they seem most plausible, in your particular interests, it is not a bad course to suspect their economic intelligence the most. They are, in these days, the managers of a highly complex world.
>
> You have placed them in this management, and you acquiesce in it. But, unfortunately, they give not the slightest indication of being any more capable in handling the affairs of masses of men than rulers have been all through history. . . .

Scherman's challenge closes with a plea that citizens make a vigorous and untiring effort to understand the economics of the world we live in. Without that understanding the citizen has no competence to judge the actions of his rulers, which also means he is unable to vote competently.

Without intellectual competence the citizen is controlled by his emotions. People controlled by their emotions in political matters have always been, and are today, easy prey for tyrants. □

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BOOKS

Rethinking the Great Depression: A New View of Its Causes and Consequences

by Gene Smiley

Ivan R. Dee • 2002 • 169 pages • $24.95

Reviewed by George C. Leef

Recently, I found myself in an e-mail argument with a friend who is intelligent and well-educated—but not in economics. I had made the point that the best macroeconomic policy is one of government nonintervention, since we will get the optimal use of resources merely by leaving people free to pursue their self-interest. He replied that he saw a flaw in my argument, namely, that we suffer through periodic recessions and depressions. Yes, we do have them, I replied, but stunned him with the argument that all such episodes stem from bad government policy, not any inherent problem in the market system. He'd never heard that before.

Erroneous economic beliefs are everywhere, and one of them is that "markets are prone to recession." Scholars have been mounting an attack against it for many years. The most recent contribution to the literature is Gene Smiley's *Rethinking the Great Depression: A New View of Its Causes and Consequences*. Smiley, a professor of economics at Marquette University, has written a readable account of the Great Depression that pins the blame for its origin and duration on the blundering of government officials.

If the view propounded by Smiley is not entirely new—his sources show that the government-as-culprit view has been around for decades—his book does a splendid job of distilling earlier analyses into an account that will leave apologists for federal economic management looking for places to hide.

Smiley challenges the conventional thinking right away: "The Great Depression is often said to demonstrate the instability of market economies and the need for government oversight and direction. The evidence can no longer support such assumptions. Government efforts to control and direct the gold standard for national purposes brought on the depression. Once it began, government actions . . . caused it to be much longer and much more severe." The old belief that the New Deal was needed to "prime the pump" of the faltering free market is about to take a pounding.

Some common, erroneous notions are quickly dispatched. For example, many people have been led to believe that the stock-market crash was the crucial event, a crash brought on by the "irrational exuberance" of the 1920s (as Alan Greenspan described a subsequent boom). Smiley points out that the stock market rose hand-in-hand with rising corporate profitability and that margin lending, often singled out as the culprit, had little or nothing to do with the rise of the market. "Margin requirements," he writes, "were no lower in the late twenties than in the early twenties or in previous decades."

The stock market didn't cause the economic debacle. Smiley argues that the onus falls on the federal government's monetary policies. The chain of events is complicated, but the book explains in clear, jargon-free English that when the major European nations returned to the gold standard after World War I, they did so at exchange rates that prevailed before the war and its inflation. The resulting economic turbulence led to the adoption of a different system, the gold exchange standard, which obligated only the United States and Great Britain to exchange their currencies for gold. "Inexorably," Smiley writes, "the gold exchange standard began leading to deflation and economic contraction as countries sought to strengthen or maintain their monetary gold reserves."

Deflation of the U.S. money supply burst the economic balloon. Business activity began to slow and many banks experienced trouble, some failing. The Hoover adminis-

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tration then stepped in with disastrous meddling—tax increases, high tariffs, and lectures on big business's civic responsibility to keep purchasing power up by not reducing wages. The Federal Reserve System, established in 1913 to prevent economic recessions by giving the nation an "elastic" currency, failed miserably. The result was that a bad cold turned into severe pneumonia.

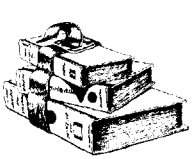
Hoover was crushed in the 1932 election, which put FDR in the White House. Smiley's dissection of the many New Deal programs is devastating. He points out, for example, that the National Recovery Administration merely cartelized businesses, with the biggest firms dominating the creation of the "codes of competition" for their own benefit. Also, the beginning of the Social Security system in 1936 hit business, and ultimately workers, with new taxes just at the time the economy was starting to recover.

In 1938 the economy suffered a severe contraction, thanks to more federal intervention and bungling: the wave of strikes unleashed by organized labor following the Supreme Court's cave-in on the clearly unconstitutional National Labor Relations Act, and the Fed's deflationary policy, which, Smiley shows, reduced the money supply by 5.7 percent in 1937.

The author's conclusion: "What failed in the 1930s were governments, in their eagerness to direct economic activity to achieve political ends—ends that were often contradictory."

Rethinking the Great Depression is an excellent work for all who wish to correctly understand this terrible chapter in American history. □

George Leef is book-review editor for Ideas on Liberty.



The Pity of It All: A History of Jews in Germany, 1743–1933

by Amos Elon

Metropolitan Books • 2002 • 446 pages • $30.00 hardcover; $15.00 paperback

Reviewed by Richard M. Ebeling

The ideological and then political triumph of liberalism in the eighteenth and nineteenth centuries ushered in a momentous period in human history. It ended the reign of absolute monarchs; it freed commerce and industry from the shackles of mercantilist regulations and controls; it heralded a new era of representative government and civil liberties. Freedom of the press and of speech, religion, and association became the hallmarks of an epoch that increasingly came to view individual liberty as the cornerstone of a humane, peaceful, and prosperous society.

Few groups benefited as much from the ascendancy of political and economic liberalism as the Jews in central and eastern Europe. Since the Middle Ages they had been confined to ghettos, often prohibited from owning and working land, and restricted from pursuing a wide variety of professions and trades. Severe limits were placed on their ability to live and work in capital cities such as Berlin and Vienna. They were burdened with special taxes, including marriage and birth taxes. Except for a small handful of privileged financiers and merchants who served the special interests of kings and princes, most Jews in central and eastern Europe were poor peddlers and traders who wandered the countryside earning meager livings.

Amos Elon's *The Pity of It All* is a sweeping history of the Jews in Germany from the middle of the eighteenth century to Hitler's rise to power in 1933. Their liberation began with a new awakening of self-improvement through what was called *Bildung* in German, or the refinement of the individual's character through literature, philosophy, the arts, and the sciences. By this method they would rise above the cultural backwardness that prevailed throughout much of the Jewish

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community at that time, and at the same time they would fully integrate themselves into the best of German society. They would become Germans who happened to be of a Jewish heritage, rather than outsiders—Jews who happened to live in Germany.

Elon tells this story of cultural assimilation through the lives of leading Jewish figures, such as Moses Mendelssohn, the great proponent of reform and change within the Jewish community, and Heinrich Heine, one of the great poets and essayists in German literature. He details the lives and ideas of the many of the leading Jewish advocates of political and social liberty, and the prominent roles they played in the advancement of constitutionalism and liberal revolution in the 1840s and 1850s.

The tensions and doubts within the German Jewish community are also emphasized, as many Jews struggled with the issue of maintaining their Jewish faith or converting to one of the Christian denominations—a pressure felt by many because of legal and political restrictions that continued to close some doors of advancement, especially in government and the military, to non-Christians. There were also the tensions around the issue of what continued to make someone a Jew if he had abandoned Judaism and chose a secular life and a nonreligious code of morality.

The elimination of practically all legal, civil, and economic restrictions on Jews by the 1860s stimulated a huge burst of creativity and cultural contribution from them for the remainder of the nineteenth century and into the early decades of the twentieth century. In music, the arts and sciences, industry and commerce, literature and journalism, as well as in politics, the Jewish contribution was of a magnitude far greater than the number of Jews in Germany, which had never exceeded 1 percent of the country's population. Liberalism's freeing of the political chains binding them resulted in the German Jewish Prometheus ascending to unimagined heights of achievement, redounding to the benefit of the greater German society and the world as a whole.

Jewish successes and contributions to such a varied number of walks of life aroused envy, resentment, and fear among other Germans who were less successful in the market and cultural competition of a more open society. Failure and disappointment, dislike of change and innovation, the collectivist sentiments that still surrounded much of German culture and thinking, and the need to find scapegoats to explain away unfulfilled personal ambitions all resulted in a growing acceptance of anti-Semitic arguments and rationalizations for any supposed "shortcomings" of non-Jewish Germans.

But the "Jewish problem" could not be "solved" in a liberal climate of freedom and open competition. So the rising tide of militarism, state socialism, interventionism, and welfare statism in late-nineteenth- and early-twentieth-century Germany was reinforced and supported by those who wished to close the doors of the marketplace and the cultural arena to their Jewish competitors. The "final solution" to this "problem" was found in the death camps. □

Richard Ebeling is the president of FEE.

The Voluntary City: Choice, Community, and Civil Society

edited by David T. Beito, Peter Gordon, and Alexander Tabarrok

University of Michigan Press • 2002 • 462 pages • $65.00 hardcover; $24.95 paperback

Reviewed by William L. Anderson

Since the late 1960s the typical picture of the U.S. city is that of a virtual cesspool of crime, poverty, and drug abuse. I remember a magazine cover of a smog-enclosed metropolis with the headline, "Our Sick, Sick Cities." The late Sen. Hubert H. Humphrey of Minnesota regularly gave speeches in which he called for a "Marshall Plan to rebuild our cities," and his theme has resonated with the public and the political classes ever since.

While libertarians often focus on the statist excesses of Congress, many cities in this country have gone beyond even the most

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coercive policies that have been dreamed up by the U.S. House and Senate. From banning all privately owned handguns to seizing private property for questionable "eminent domain" purposes to forbidding home religious gatherings (in violation of zoning ordinances), many cities have become places where government chokes freedom. Furthermore, many cities find huge portions of their municipal budgets being financed by tax dollars from Washington.

Thus one might think that cities are not the place to find free markets, private property, and voluntary transactions. That is not the case, however, as *The Voluntary City* aptly demonstrates time and again. In 15 excellent essays, various writers tackle issues in which problems faced by individuals in a community have been solved through voluntary private cooperation. In other words, the standard "market failure" arguments that many economists of both right and left use to justify government intervention simply are not true, to put it mildly.

For example, Bruce Benson, who has become well-known for his studies of law, justice, and the police, points out that the state does not have to create courts for a society to be able to dispense justice. Benson notes that in medieval Europe nearly 1,000 years ago the law merchant, which is a private system of international law, was already thriving and still is in existence today. Many firms and individuals, he points out, prefer to use private arbitration services to resolve disputes rather than depend on the slow, inefficient, and unpredictable state courts.

Benson addresses the assertion that private courts succeed *only* because the government court apparatus stands behind them to enforce their rulings. Such a claim is "demonstrably false." Historically, he writes, merchants who refused to abide by arbitration rulings often found themselves subject to boycotts by other merchants, a tool that effectively disciplined the wayward business owners.

One of the enduring myths of American society is that before the establishment of the welfare state in the first half of the twentieth century, it was a "dog-eat-dog" world in which most needy individuals simply fell through the cracks. David Beito and David G. Green effectively destroy that false notion in their essays on mutual-aid societies that dotted the urban and rural landscapes of America, Great Britain, and Australia.

Beito points out that numerous fraternal societies existed, like Woodmen of the World, the Independent Order of Odd Fellows, the Sons of Italy, and the Polish National Alliance, which provided financial help to members and their families in need. That they were mutual-aid societies also implied reciprocity: those who received aid also could be counted on later to help others.

Green writes about the friendly societies of Britain and Australia that covered literally millions of people, providing various kinds of medical care and other welfare benefits. Like the fraternal societies of the United States, these organizations found their efforts crowded out in the twentieth century by the expanding state welfare apparatus, which handed out money without responsibilities attached.

The Voluntary City is must reading for those who champion not only private enterprise, but also a free society. From private arbitration to private police to communities that operate essentially under private law, these essays demonstrate that a voluntary society not only works, but prospers. □

William Anderson is a professor of economics at Frostburg State University.

The Collapse of the Common Good

by Philip K. Howard

Ballantine • 2002 • 272 pages • $14.00 paperback

Reviewed by Harold B. Jones, Jr.

Books by aspiring politicians talk about what is wrong with the world so that their authors can offer to set things right. One title in this genre is Al Gore's *Earth in Balance*. Another is Philip K. Howard's *The Collapse of the Common Good*.

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Howard is definitely a man with political ambitions. A New York lawyer who has led local initiatives, he is now ready for bigger things. A few days after a *U.S. News and World Report* article described Howard's success in attracting the support of prominent politicians, George McGovern and Alan Simpson published a letter in the *Wall Street Journal* announcing that they had joined Howard in "a bipartisan coalition, Common Good."

Beware of bipartisan coalitions. The only things about which old political enemies ever agree are the expansion of government and the reduction of individual freedom. This seems to be fine with Howard. He wrote his book, he says, because he believes that "people with responsibility . . . should have the authority to make decisions just because it seems right." He abhors the view that "assumes justice is only about fairness to the particular parties." What we need, he says, is a system of law that allows those in authority to make their choices with an eye to "the common good."

"Common good" is his favorite expression. He does not see the nonsense in talking about a "common good" that is different from the well-being of the individuals of whom the commonality is composed. And what can "justice" mean if not fairness to particular parties?

But Howard does not think much of particular individuals: "Without pressure, most people won't move." His collectivist thinking is further evidenced in this quotation from Chester Barnard: "Ability is not something that is possessed by an individual independent of his environment." Howard does not see that the question of individual ability turns on the fact that some people apply ideas and energy to the raw materials of the environment to create useful things, while others either try and fail or don't try at all.

His heroine is Carmen Farina, principal of P.S. 6 in upper Manhattan. She took a failing school and created a beehive of student success, parental involvement, and educational initiative. "You can do things here," said a third-grade teacher. According to Howard, this proves that we find freedom in someone else's authority. Mrs. Farina, though, did not find the freedom to change the place by looking to someone else's authority. She did it by selecting a purpose and beginning to move in the right direction. She defied the bureaucracy, broke the rules, and accepted responsibility. Her story is about the power of an individual.

Howard consistently misses this kind of thing. All his illustrations support the case for individual freedom and responsibility, but his conclusions incline toward the enhancement of federal authority. After railing against the inefficiency, incompetence, and demoralizing effects of bureaucracy, he suggests bureaucratic solutions. With regard to the discrimination cases that now clog the courts, he says, "the right to bring individual claims should be entrusted to an unbiased third party, such as the government." How is the government to do this without creating a bureaucracy for that purpose? How can we imagine that the individuals of whom this bureaucracy is composed will be without bias?

There is only one way in which Howard's catalog of modern ills can be used to lend weight to his arguments. F. A. Hayek said that by 1933 socialism and bureaucracy had carried Germany to the point at which it had to be governed dictatorially. Hitler was able to assume authority because many believed he was the only man powerful enough to get things done. Perhaps bureaucracy and the expanding welfare state are bringing the United States to a place similar to Germany's in 1933. If so, our one hope lies in the thing that seems furthest from Howard's mind: a reduction in the size and power of government.

Howard is a brilliant and entertaining writer. As a list of the things that have gone wrong with America, this book is worthy. But as an expression of political philosophy, it is feeble and its policy recommendations could hardly be worse. □

Harold Jones is a professor at Mercer University and author of Personal Character and National Destiny *(Paragon House, 2002).*

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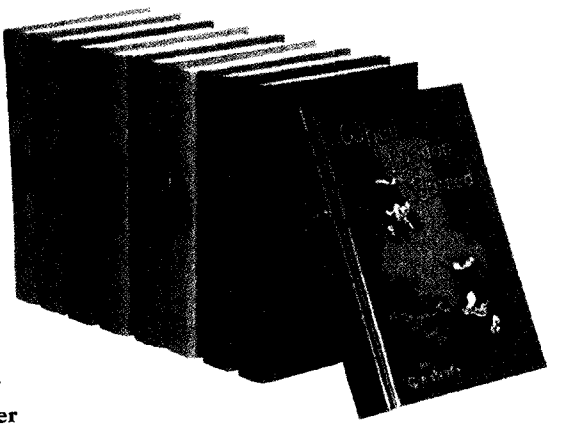

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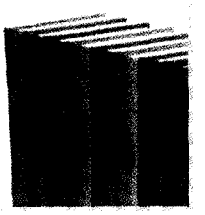

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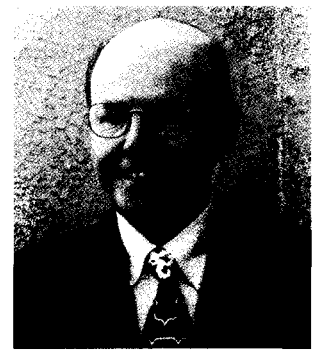

Lessons from the Washington Teachers Union

The Washington Teachers Union (WTU) is the exclusive bargaining agent for District of Columbia government school teachers. Teachers represented by WTU must, as a condition of continued employment, pay union dues whether they want WTU representation or not. Its website, www.wtulocal6.org, boldly proclaims its motto, "Building Better Schools: It's Union Work."

Last December a sickening story of embezzlement, money laundering, fraud, and illegal campaign contributions over a six-year period became public. The extent of the scandal is still unfolding as the FBI, IRS, U.S. Department of Labor, and D.C. inspector general carry on their investigations. The alleged perpetrators of what is now estimated to be a $5 million plundering of the union treasury for personal gain are former WTU president Barbara A. Bullock, former treasurer James O. Baxter III, and Gwendolyn M. Hemphill, Bullock's special assistant.

The extraordinary details of the scandal are explained in depth by Patrick J. Reilly in the March issue of the Capital Research Center's *Labor Watch* (www.capitalresearch.org). In brief, it is alleged that Bullock, Baxter, and Hemphill charged personal expenditures on WTU credit cards, forged signatures on WTU checks, changed names of payees on checks, and with the help of Bullock's chauffeur, Leroy Holmes, laundered WTU money through to their own personal accounts. At this writing only Holmes has been charged with a crime; he pleaded guilty to at least one count of money laundering. Additional criminal charges are expected. The FBI confiscated much of the loot—including furs, ball gowns, art, furniture, china, crystal, silver, jewelry, and electronic equipment—from the homes of the alleged perpetrators and some relatives.

Hemphill had been well-connected in D.C. politics and with politicians such as former mayor Marion Barry for many years. She was co-chairman of Mayor Anthony Williams's re-election campaign in 2002. WTU money helped him win. Baxter was director of the D.C. government's Office of Labor Relations and Collective Bargaining under both Barry and Williams. Baxter's brother, Curtis Lewis, who was the union's lawyer, hosted fund raisers for Williams and allegedly paid for them with a WTU credit card. Campaign contributions were made from the WTU treasury to the Democratic National Committee and to the senatorial campaign of Hillary Clinton in 2002. The DNC and Clinton returned the money when the scandal became public.

This systematic looting of the WTU treasury was uncovered only because of a blunder by the alleged perpetrators. The treasury was so depleted that the union could not pay its 2002 per capita dues to its parent, the American Federation of Teachers (AFT). Bullock needed $700,000 to turn over to the

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AFT in order for WTU representatives to be seated at the AFT's annual convention in 2002. She allegedly "solved" this problem with a one-month increase of the dues that D.C. teachers were forced to pay, from $16 to $160. The extra $144 per teacher would have raised enough money to pay the AFT assessment. However, several teachers were outraged at the unexpected, and unauthorized increase, and complained to the AFT, which then began to make inquiries and ultimately hired an independent firm to undertake a forensic accounting investigation of the WTU. In addition several teachers filed civil suits against the union.

The AFT constitution requires its member unions to have their books audited at least every two years. There had been no audit of the WTU since 1995. The AFT at least should learn to enforce the provisions of its own constitution. More important, union rank and file should learn that their union leaders cannot always be trusted. They must exert more diligence and control over their own locals. Before the scandal broke, the WTU had not held a membership meeting in five years because the required quorum of 100 teachers could not be assembled. The WTU represents 5,000 teachers.

Reporting Requirements

As long as teachers are forced to fund the union against their will, policymakers should tighten up the legal reporting requirements imposed on unions and should see to it that those requirements are enforced. The Security and Exchange Commission (SEC) imposes tight reporting and independent audit requirements on public corporations. In like manner, the Department of Labor (DOL) should impose and enforce similar rules on unions. The Secretary of Labor has recently proposed revising the LM-2 reporting requirements that already exist for unions, but her proposals do not go far enough. As I said in my last column, at the very least DOL should require that unions get and publicize an annual independent audit of their books.

More important lessons concern the very nature of compulsory unionism itself. Union members are not diligent because they have no effective control over union officers. If each teacher were free to choose whether to join and support a union or not, union leaders would have to pursue teacher interests rather than their own interests, because members would have the ultimate power of exit. With that power members would naturally be diligent.

For state and local government employees to have that freedom, 34 states and the District of Columbia would have to repeal their laws that provide for exclusive representation (selecting a union by majority vote rather than individual choice) and union security (compulsory dues payments). In the private sector the National Labor Relations Act would have similarly to be repealed.

Union officials and the politicians in their thrall will dismiss such reforms as too radical to be taken seriously. I suspect most of the electorate would agree with them. But that is the real outrage. Individual freedom of association is guaranteed by the First Amendment to the Constitution. It ought to be widely accepted as a mainstream idea. That it isn't is perhaps the worst legacy of Franklin Roosevelt's New Deal, made possible by a complicit Supreme Court, whose fallacies have ever since been promulgated by the government-school monopoly. Building better schools isn't union work. It is the work of competition and entrepreneurship in an open education market. □

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